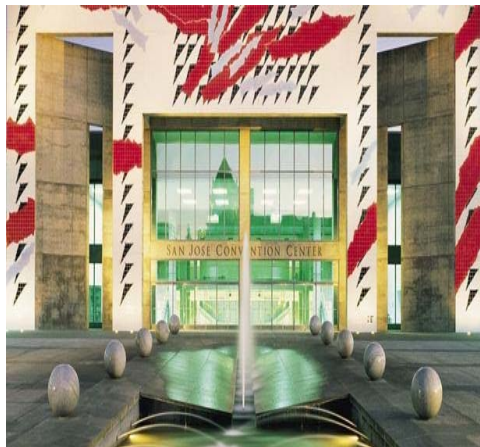


San Jose Convention Center & Team San Jose Benchmarking Analysis



September 20, 2012



September 20, 2012

Mr. Lee Wilcox
Downtown Manager
City of San Jose, Office of Economic Development
200 East Santa Clara Street, 17th Floor
San Jose, CA 95113

Dear Mr. Wilcox:

CSL has undertaken a very thorough benchmarking analysis of various facets of Team San Jose (TSJ) and San Jose Convention Center (SJCC) operations, structure, resource allocation and other business aspects. This summary captures the primary findings and conclusions from this effort.

We have worked closely with TSJ and city staff as part of this effort, and greatly appreciate the assistance that has been provided. The conclusions are based on our independent evaluation of performance data provided to us, and on our analysis of the various operating metrics, structures and policies in place in numerous comparable and regional convention and visitor entities.

Please do not hesitate to contact us regarding issues or topics that arise going forward as to TSJ, the SJCC or other related areas.

Very truly yours,

CSL International

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Introduction and Executive Summary

CSL was retained by the City of San Jose to prepare a very thorough benchmarking analysis of various facets of Team San Jose (TSJ) and San Jose Convention Center (SJCC) operations, structure, resource allocation and other business aspects. The findings and conclusions presented herein are based on our independent evaluation of performance data provided to us, and on our analysis of the various operating metrics, structures and policies in place in numerous comparable and regional convention and visitor entities.

These findings and conclusions are presented by section below.

Convention Industry Infrastructure

- The San Jose Convention Center (SJCC) is a mid-sized facility, offering 251,600 square feet of sellable space (subsequent to the on-going expansion project). By comparison, the Moscone Center in San Francisco offers 812,300 square feet, and the San Diego Convention Center will offer 1,132,600 square feet after the planned expansion is completed. Facility sizing parameters can have a direct impact on the event mix attracted to the market. Larger centers (with significant hotel inventory) will continue to attract the very large events in the bio science, technology and other sectors.
- The availability of hotel rooms in a market can have a significant impact on the ability to attract non-local conventions and tradeshow. There are currently approximately 2,173 rooms within one-half mile of the SJCC. This compares favorably to the 584 rooms near the center in Portland, the 791 rooms in Santa Clara and the 1,677 rooms in Sacramento. However markets such as Seattle (8,489, Long Beach (1,985) and other national markets such as Cincinnati (3,083) and Milwaukee (3,370) offer higher room counts near the center.

Operating Revenue

- We have reviewed various financial operating statistics for the SJCC relative to a set of comparable and regional centers, including those in Seattle, Sacramento, Portland, Santa Clara, Long Beach, San Francisco, San Diego, Cincinnati and Milwaukee.
- We have reviewed the revenue generated at the SJCC in a variety of ways. The most relevant metric is revenue per square foot of sellable space. On this basis, the SJCC generated 1 percent less revenue in 2011 than the comparable/regional facility average. However, there are variances that are important to consider within specific revenue categories. For example, the SJCC generated approximately 18 percent more rental revenue per square foot than the comparable/regional facility set, and 48 percent more food and beverage revenue.

- The SJCC food and beverage revenue increased from \$6.93 per square foot in 2010 to \$13.76 in 2011, primarily due to the decision to bring the food and beverage operation in-house. Any profits previously retained by the outside vendor are now retained by the SJCC.
- There are a variety of other revenues generated by a convention center, including audio/visual charges, electrical and telecommunication charges, labor charge back and other such sources. The other revenue generated at the SJCC is 38 percent below the comparable/regional facility average. Going forward, CSL will work with SJCC management to explore opportunities to increase these revenues. Based on our review, potential areas of focus should include:
 - Analyzing performance under existing vendor contracts (as is underway with respect to the electrical contract).
 - Advertising and sponsorship revenue opportunities.
 - Opportunities for the SJCC to pursue limited participation in service and equipment provision to clients.
- SJCC management has forecasted and is planning for a significant drop in revenue during the current construction, with a rebound in revenue starting in 2014, followed by steady annual growth. The forecasted revenue growth appears to be appropriately conservative for planning purposes.

Operating Expenses

- The total operating expenses per square foot for the SJCC dropped significantly from \$55.60 in 2010 to \$42.10 in 2011. The 2011 expenses are 2.0 percent higher than the comparable/regional facility average. We have also adjusted the expenses to account for regional cost factors. The adjusted cost per square foot at the SJCC dropped from \$42.08 in 2010 to \$31.83 in 2011, with the 2011 statistic at approximately 10 percent below the comparable/regional facility average.
- Annual expenses for the SJCC increased by approximately \$2.5 million between 2006 and 2010. However, given the recent reductions, the operating expense level for the SJCC in 2011 was roughly the same as the expense total in 2006.
- The expense levels at the SJCC appear to be below average for several major categories. For example, the salaries/benefits/contract labor costs per square foot at the SJCC are approximately 12 percent below comparable/regional facility averages and utility costs are approximately 27 percent below average. However, insurance costs are 48 percent higher than average and combined SJCC other expenses including repair/maintenance, general/administrative and supplies are approximately 21 percent above average.
- The operating deficit of the SJCC in 2010 was high relative to the facilities reviewed, but has dropped significantly to just over \$1.4 million in 2011. As previously noted,

after the completion of the current construction project, SJCC management has forecasted revenues and expenses to rebound, maintaining lower operating deficit into the future.

Rental Rates

- The published rental rate for exhibit space at the SJCC is \$0.21 to \$0.22, depending on space used. This is higher than any of the comparable/regional facilities reviewed, and slightly higher than the \$0.20 charged at the Moscone Center in San Francisco. These data do not take into consideration discounting that takes place on a case by case basis. The higher rental rates can make it more difficult to attract high-impact conventions, however by virtue of controlling both the Convention and Visitors Bureau and the SJCC, Team San Jose management is in a position to make strategic discounts for purposes of attracting desired events. Further, the rate structure may contribute to the above-average rental revenue being generated by the SJCC.
- Meeting space rental rates for the SJCC are also above the comparable/regional facility average, however there is typically a wide variation in high and low rates charged at the facilities reviewed. This accounts for the significant diversity in quality of meeting space found at many centers. For example, the low rate for meeting space at the facilities reviewed averages \$0.18 per square foot, compared to the \$0.40 for the SJCC. At the high end, the average of the facilities reviewed is \$0.54, compared to the \$0.53 at the SJCC.
- The \$0.42 cents per square foot charged for SJCC ballroom space is above the comparable/regional facility average of \$0.16 (low) and \$0.33 (high).
- TSJ is very active in using a Client Advisory Board (CAB) to provide guidance industry insight into many aspects of SJCC development and operations. The CAB mechanism should continue to be used to assess facility rental rates, as well as the overall slate of facility charges, in order to make sure the cost structure for the SJCC is competitive. Consideration should also be given to using surveys of event planners that have recently used the SJCC to evaluate opinions regarding the current SJCC rental structure.

Provision of Services

- Of the eight comparable/regional facilities reviewed, all but two (SJCC and Ontario Convention Center in California) provide food and beverage service through a contracted vendor. Centers that use a contract vendor receive a share of revenue roughly equal to 25 to 40 percent of gross revenue. While the in-house food and beverage service is not the norm in the industry, it does provide the SJCC with a superior level of revenue and added control over food service and quality. We strongly recommend maintaining the in-house approach.

- Telecommunication and Internet service is provided to the customer either through in-house operations, or through a contractor with an exclusive contract with the center. At the SJCC, an exclusive vendor (Streamline Communications) is used. This approach is also used at centers in San Francisco, Long Beach and Cincinnati. Centers in Spokane, Portland, Ontario (CA) and Milwaukee provide these services in-house. There can be advantages to the in-house approach, inclusive of potential for added revenue and the ability to fully control service levels. Conversely, the contractor approach shifts the responsibility for keeping very current with emerging technologies to a qualified technology expert, freeing management to focus on other important areas. As there are no right or wrong answers to the approach to telecommunications and Internet service, and as the overall SJCC revenue levels are not deficient, there are no significant pressures to take the service in-house.
- There are other issues related to Internet and various technology capabilities that should continue to be evaluated, given the significant changes taking place in the industry. For example, free wireless has become somewhat of a rallying cry amongst event planners, and buildings have responded to this pressure in different ways. It is increasingly common for a center to offer free wireless in the common areas (lobby/prefunction) at a relatively low bandwidth. A fee would then be paid (by the exhibitor or show manager) to secure a higher level bandwidth in the exhibit and other building areas, and a fee would continue to be charged for wired access. We will continue to work with TSJ to monitor these trends for application to policies and procedures at the SJCC.
- We also understand that TSJ is working with city IT leadership to assess technology contracting documents with the intent of providing a more customer friendly approach.
- There are numerous means of providing audio/visual services. Some centers use an in-house operation, some have a preferred (or even exclusive) vendor arrangement, and some have an open approach for all vendors. Often times, the management for an event will have strong preferences as to which firms to use for a/v services, and in many cases their vendor of choice has experience with the specific needs of the event. For this reason, strictly in-house or exclusive vendor approaches can be challenging. The SJCC uses a preferred vendor approach, providing customers with a list of vendors to choose from, and allowing flexibility for event management to choose their own preferred vendor. In most cases, the center will retain a percentage of gross a/v revenue, generally ranging between 20 and 40 percent. These statistics are consistent with the approach used for the SJCC. There may be an opportunity for the SJCC to provide basic a/v equipment at a relatively high mark-up in order to increase other revenue levels. Otherwise, there is no significant need to significantly alter the current approach.
- Convention and tradeshow customers at a convention center consume a significant amount of electricity, and there can be significant staffing requirements to set up exhibits and provide necessary power. In most of the comparable/regional centers reviewed, these services are provided with in-house staff. Three (San Francisco,

Long Beach and San Jose) use a preferred or open system allowing electrical vendors to service the client's needs, and then retaining a share of gross revenue equal to 24 to 40 percent of the various charges. Facility managers throughout the industry differ on the most desirable approach. Providing these services in-house can increase overall revenue, but requires retaining a significant labor pool and a great deal of cabling and other equipment. As there are no current deficiencies in SJCC electrical revenue relative to other venues reviewed, there does not seem to be an immediate need to reevaluate the current approach. The on-going audit of electrical service and revenue (now being conducted on an event by event basis) should be pursued indefinitely.

- Currently, the SJCC does not provide booth or other event cleaning services. Outside vendors provide this service and the SJCC retains no revenue. Consideration could be given to requiring some modest payment of gross booth/event cleaning service revenue from the vendors that work in the facility.
- Six of the facilities reviewed offer at least some measure of in-house security; most commonly perimeter or building security, with event security provided by an outside vendor and no revenue retained by the facility. TSJ management indicates that the level of base building security provided at the SJCC will increase once the current construction project is complete. This may create opportunities to provide some level of event security, creating an additional revenue stream. This will reduce contract labor costs with a corresponding increase in salaries, provide an opportunity to charge a portion of event related security costs to the customer, and provide greater management control of an important building function.

Destination Sales and Marketing Budgets

- The budget for destination sales and marketing in San Jose is approximately \$4.6 million. This ranks below the average of comparable/regional markets reviewed of \$7.3 million. However, the \$22.1 million spent in San Francisco skews the averages, and without this data point, the average of the remaining markets is \$5.2 million, much closer to the San Jose total.
- A significant share (in fact the largest by percentage among the markets reviewed) of the San Jose sales and marketing budget is spent on personnel costs. In our view, this is an appropriate approach given the fact that San Jose is not generally seen as a leisure destination, and more Team San Jose focus is placed on selling of conventions, conferences, tradeshow and other high-impact events. Where efforts to attract leisure travel tend to rely on advertising and public relations, efforts to attract events require a strong direct sales process, hence the high (and in our opinion appropriate) proportion of personnel costs.
- The average destination marketing organization staffing level approximates 39, or 30 when excluding the 104 positions in San Francisco. This is in line with the current 27 positions in San Jose.

- Destination marketing organizations generate the majority of their funds through an allocation of various visitor industry taxes, primarily the hotel tax. A smaller share of funding is secured through various private sector sources such as membership dues, grants, in-kind contribution and funding from industry partners (hotels, restaurants, etc.). Team San Jose generates approximately 5 percent of their funding through these private sector sources. Several DMO's operate with a membership system in order to increase private sector revenue, collecting dues from local/regional members for services provided. While there may be a modest amount of net revenue generated through this approach, it can complicate sales and marketing efforts in that attractions, hotels or other assets that are not members are not typically included in promotional material. The approach used in San Jose is fully acceptable, and in our opinion should be continued.
- We have prepared a statistic designed to measure the cumulative investment made by a community in the convention and visitor industry. To accomplish this, we combined the budget for destination sales and marketing with the operating subsidy for the convention center. In San Jose, the combined figure is approximately \$6.0 million, which is below the average of \$10.6 million. Even without the significant investments made in San Francisco and San Diego, the comparable/regional facility average is \$6.3 million.
- We have also measured destination investment on a per square foot of convention space and on a per hotel room basis. The \$31.38 of destination investment per square foot in San Jose is near the comparable/regional market average of \$31.02; and the investment per hotel room within one-half mile of the center in San Jose is \$2,578, slightly higher than the average of \$2,446.
- We note that subsequent to the current expansion project, the cumulative industry investment per-square foot will decrease to \$23.96, assuming no future budget or subsidy changes. This may suggest that a modest increase in future TSJ expenditures would not be inconsistent with their operational responsibilities. Given expected growth in future hotel tax collections, the appropriate budgetary increases should materialize. Also, the collection of HBID funds (which require an annual approval from the hotel industry) is an important component of support for coordinated and strategic TSJ sales and marketing efforts.
- Other measures that include debt service on convention center bonds, investment in other community attractions and visitor amenities could also be prepared, however the measure we focus on represents an informed picture of the discretionary dollars each community dedicates to the industry on an annual basis.

Comments on the Team San Jose Organizational Approach

In a previous report, we summarized the various industry issues associated with destination marketing organization and center operating relationships. These comments are worth repeating here:

The convention and tradeshow industry nationally has become increasingly competitive as cities continue to improve their convention package to compete for market share. In San Jose, significant investment in Convention Center improvements are in the construction stages. Given the fact that most major destinations have developed high quality convention center and hotel packages, event planners are increasingly focused on other criteria as part of their site selection process. One of the factors that continues to receive attention is the quality of customer service, beginning with the sales process, through contracting, into event planning and finally during the event itself. It is therefore very critical for entities that sell and operate the center to closely coordinate their efforts.

In an ideal situation, convention centers and DMOs (destination marketing organizations) follow a coordinated path of mutual benefit and productivity. At the ideal, conditions would exist under which center and DMO management seek to maximize economic impact and room nights, while at the same time protecting the financial operating integrity of the center. To achieve this ideal, significant emphasis has been placed on how Centers and DMOs interact and how different perspectives between the two organizations can be bridged. Generally speaking, this bridge can use specific and aggressive policies to enhance coordination, or simply entrust to the goodwill between leadership and staff of the two organizations.

Some of the issues that many cities have to address with respect to center and DMO interaction include the following:

- *A DMO that is incentivized and rewarded for achieving room night goals and, to a lesser degree, center revenue objectives.*
- *Center management that is almost solely evaluated by government in terms of the financial operations of the center.*
- *A center manager that, while evaluated based on financial performance, often has little control over the center sales and marketing process.*
- *A DMO that is willing to argue for highly-reduced or waived center rent in order to book an event, and a center that may rather book a local event with limited room nights but that generates significant center revenue.*

In San Jose, the approach to addressing these and related issues was one of structure. A combined entity, in theory, could force the alignment of goals and strategies amongst separate organizations. In addition to the changes in San Jose, there has been a level of “experimentation” on a national basis with the organizational structures and policies under which DMOs and centers operate.

As part of this benchmarking analysis, we have reviewed organizational structures that govern destination sales and marketing organizations as well as facility operations in markets such as Ontario, Sacramento, San Diego, Boston, Spokane, Milwaukee, Long Beach and others that have some form of combined sales and operational structure. Our review indicates that there are distinct benefits associated with the combined approach currently used in San Jose and other markets:

- When multiple venues are under one structure, there is a great deal of flexibility as to facility scheduling, and the ability to host functions for a single event in a variety of venues without difficult scheduling issues.
- The schedules for various facilities under single management are well coordinated, preventing difficult unforeseen logistical challenges when large multiple events are held simultaneously.
- There are various economies of scale with staffing:
 - Janitorial, maintenance and other event staff can be utilized more efficiently and with less downtime between events.
 - Upper level management and administrative staffing such as finance, human resources and payroll.
- The often contentious issue of facility pricing and discounting can be managed strategically under single leadership. This can be very helpful in defining a unified strategy as to event types that receive booking and pricing preference.
- The unified structure can allow for a single point of customer contact, thereby simplifying the booking and event production process for event planners.

For these reasons, it is worth repeating the key findings regarding organizational structure, specific to San Jose:

Based on our review of conditions in San Jose, as well as national trends and conditions, we make the following observations.

- *The structural changes in San Jose are reflective of national trends that seek to better align the strategic goals and objectives.*
- *Several markets nationally have looked to the changes in San Jose to inform their approach to aligning facility and destination marketing operations.*

- *The Team San Jose concept appears to have created a greater sense of coordination between convention center and destination marketing organization priorities.*
- *The current Team San Jose leadership appears to have addressed many of the concerns expressed about the past structural changes.*
- *The inclusion of a diverse set of facilities (convention center, performing arts and civic venues) into the Team San Jose structure can create unique challenges and opportunities.*

We recommend that from a structural standpoint, the changes made to form TSJ be retained. While minor adjustments to policy and other aspects of the TSJ model can be made, the model itself is sound. The various changes made recently to standard operating procedures represent a very positive step in creating a strategic, customer-oriented and financially responsible enterprise. We suggest that TSJ continue to monitor these policies from the standpoint of the customer and from the perspective of changes made at competitive/comparable facilities.

Competitive/Comparable Facility Revenue Analysis

Comparison of Square Footage Offered – Competitive & Comparable Facilities

Facility	Market	Exhibit Space	Meeting Space	Ballroom Space	Total Space
Moscone Center	San Francisco, CA	534,500	154,000	123,800	812,300
San Diego Convention Center	San Diego, CA	525,700	118,700	81,700	726,100
Oregon Convention Center	Portland, OR	255,000	52,500	59,400	366,900
Washington State Convention Center	Seattle, WA	205,700	60,100	44,400	310,200
Long Beach Convention & Entertainment Center	Long Beach, CA	224,000	63,200	21,000	308,200
Duke Energy Center	Cincinnati, OH	195,300	45,300	56,900	297,500
Frontier Airlines Center	Milwaukee, WI	188,700	39,600	37,500	265,800
Expanded SJCC	San Jose, CA	143,000	50,800	57,100	250,900
San Jose McEnery Convention Center	San Jose, CA	143,000	26,600	22,000	191,600
Sacramento Convention Center	Sacramento, CA	134,000	21,300	24,300	179,600
Santa Clara Convention Center	Santa Clara, CA	90,000	22,200	45,000	157,200
		Average 261,400	64,100	54,900	380,400
		Median 205,700	52,500	45,000	308,200

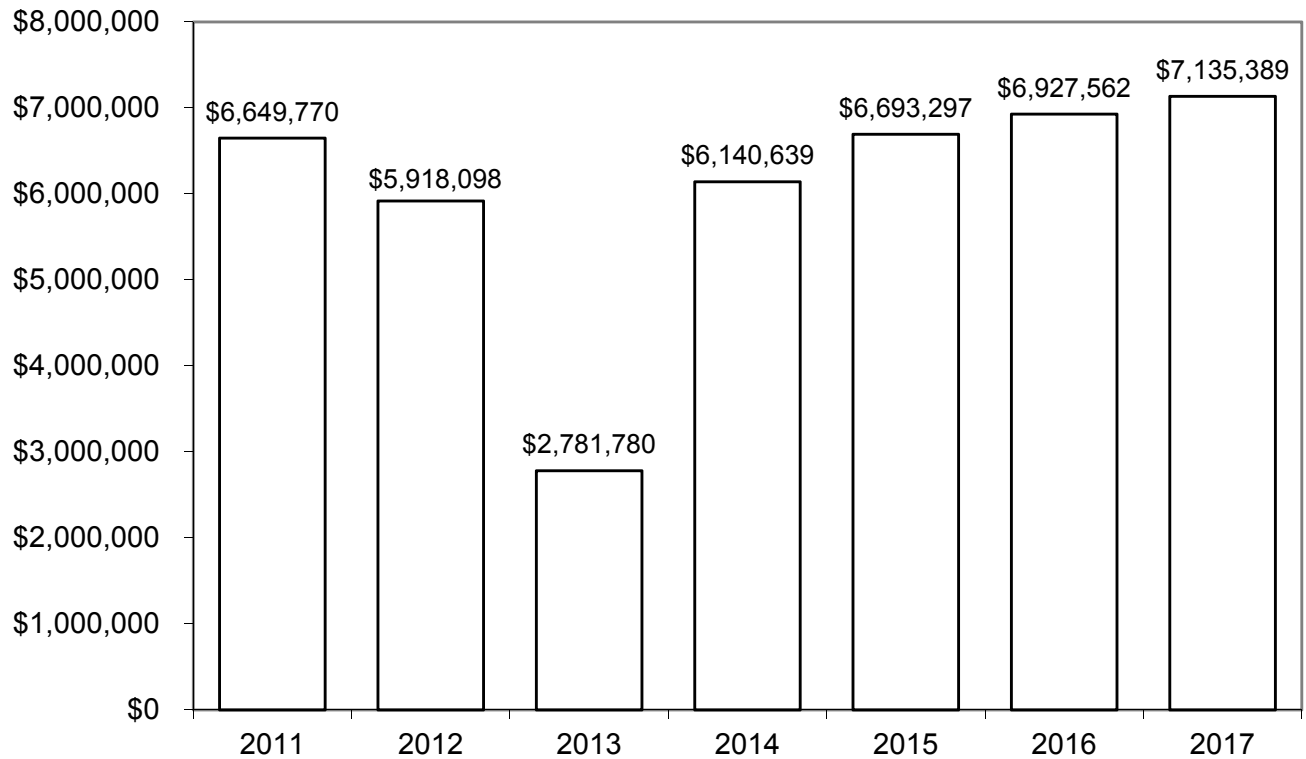
Note: Average and median calculations exclude the SJCC.
Source: CSL, Facility Management, 2012

In terms of exhibit, meeting and ballroom space, the San Jose Convention Center (SJCC) ranks low relative to many other west coast and mid-market facilities. The current expansion project will significantly improve the meeting and ballroom space positioning of the SJCC.

These data are not intended to identify deficiencies in the SJCC program of space, but rather to show that centers in San Francisco, San Diego and other regional markets offer space sufficient to accommodate large industry events that could not be held in San Jose due to space constraints.

The space levels are also used later in this analysis to measure per-square foot financial operating performance.

SJCC Revenue Forecast – Total Operating Revenue

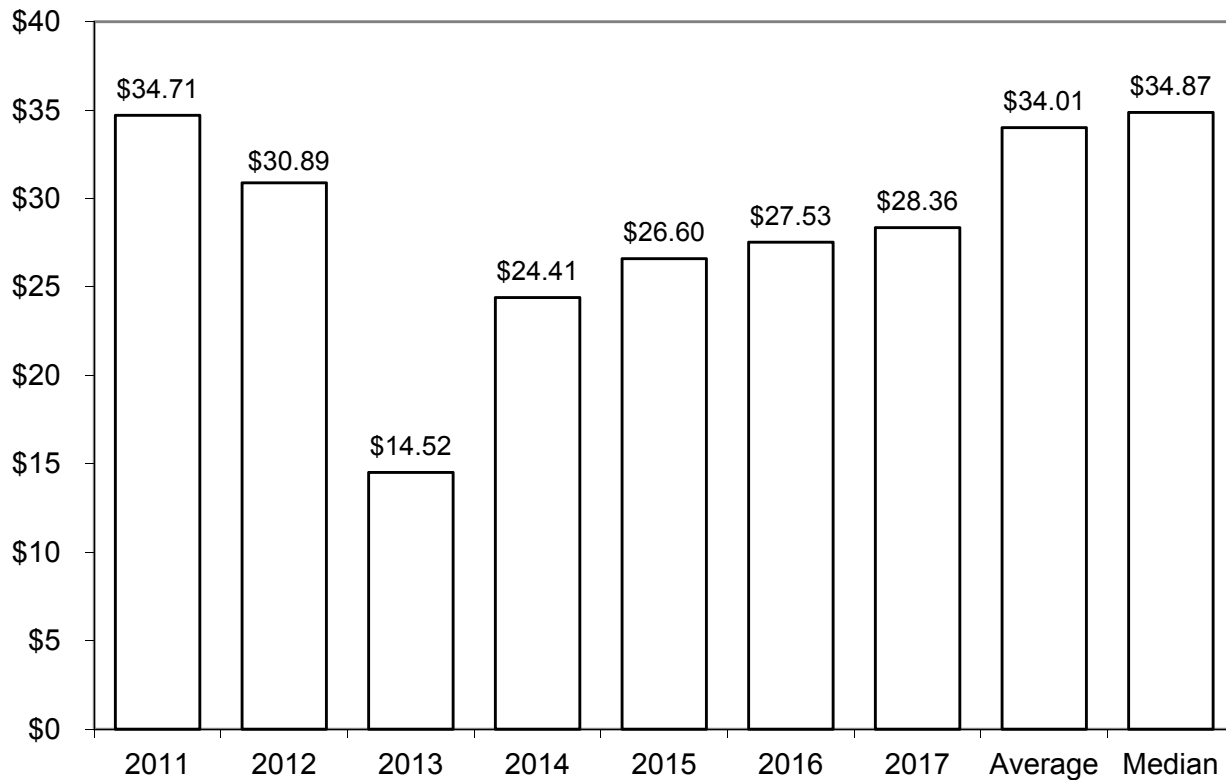


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

The SJCC operating revenue levels are forecast by management to decrease significantly in 2013 due to current construction. Revenue levels rebound beginning in 2014, with projected steady increases in subsequent years.

SJCC Revenue Forecast – Total Operating Revenue Per Square Foot of Sellable Space



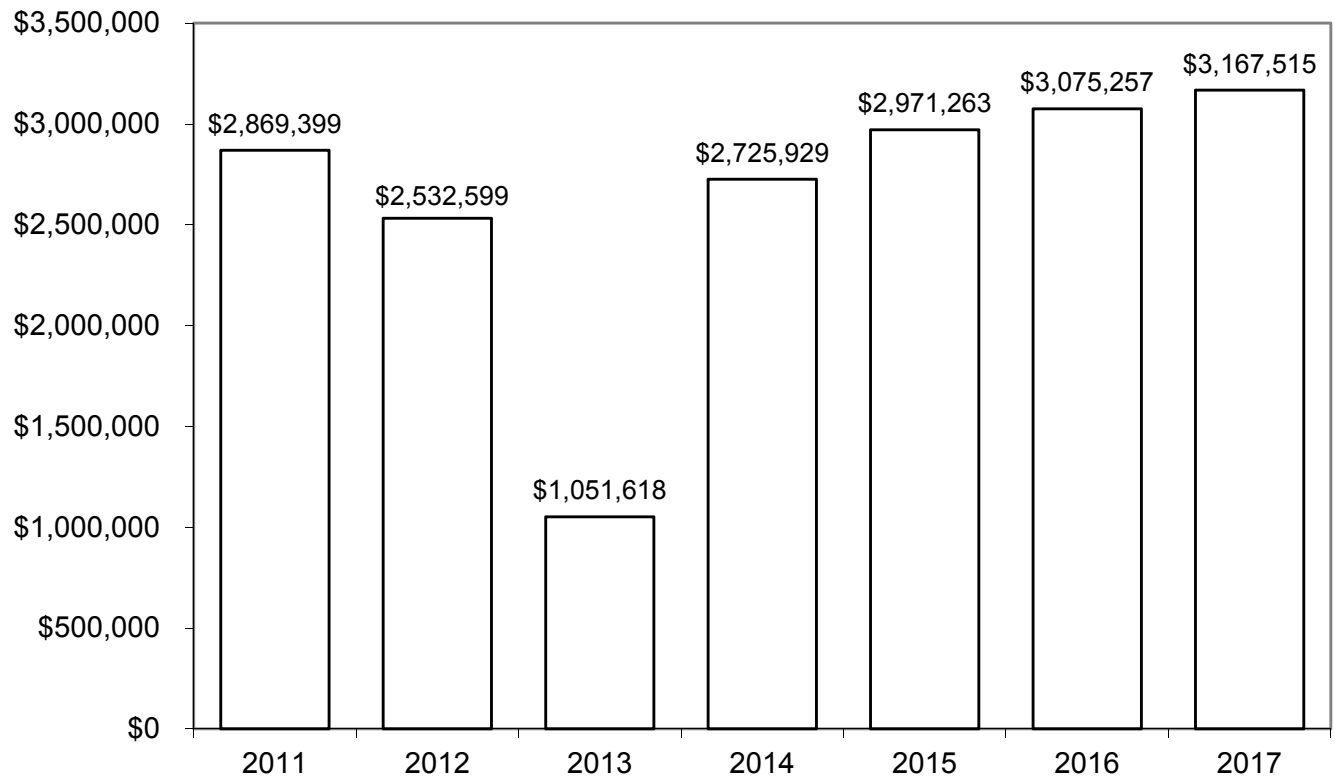
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Note: The SJCC will be adding approximately 60,000 square feet of total sellable space in September 2013. This added event space was factored into the analysis beginning with 2014 data and beyond.

Source: CSL, Facility Management, 2012

SJCC operating revenues per-square foot of sellable space reached \$34.71 in 2011, with a slight drop projected for 2012 due to the on-going construction, followed by a more significant drop in 2013. Subsequent to 2013, operating revenue per-square foot is projected to reach \$28.36 by 2017. This is lower than the 2011 level, and lower than the average and median for the set of comparable and competitive centers. We suggest that the current revenue projections should therefore be considered somewhat conservative.

SJCC Revenue Forecast – Rental Revenues

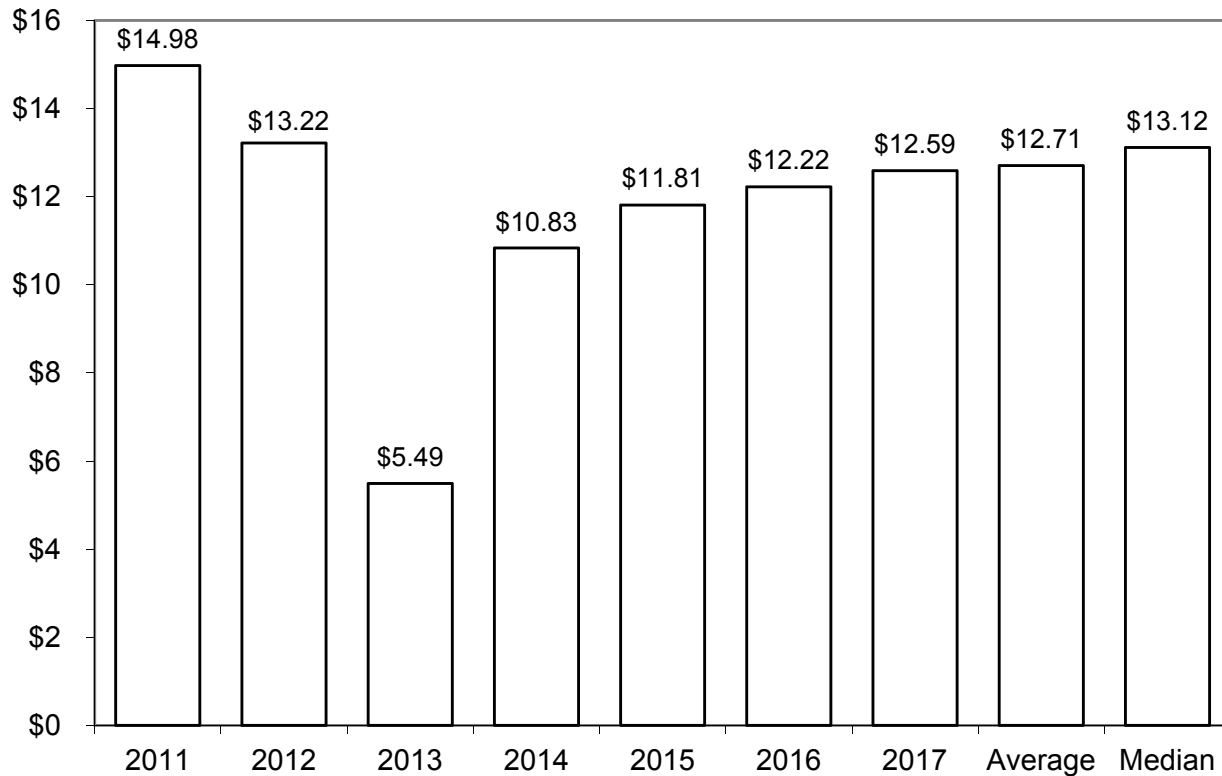


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

Projected SJCC rental revenues show a construction-related decline, followed by an increase in later years, reaching \$3.17 million by 2017.

SJCC Revenue Forecast – Rental Revenues Per Square Foot of Sellable Space



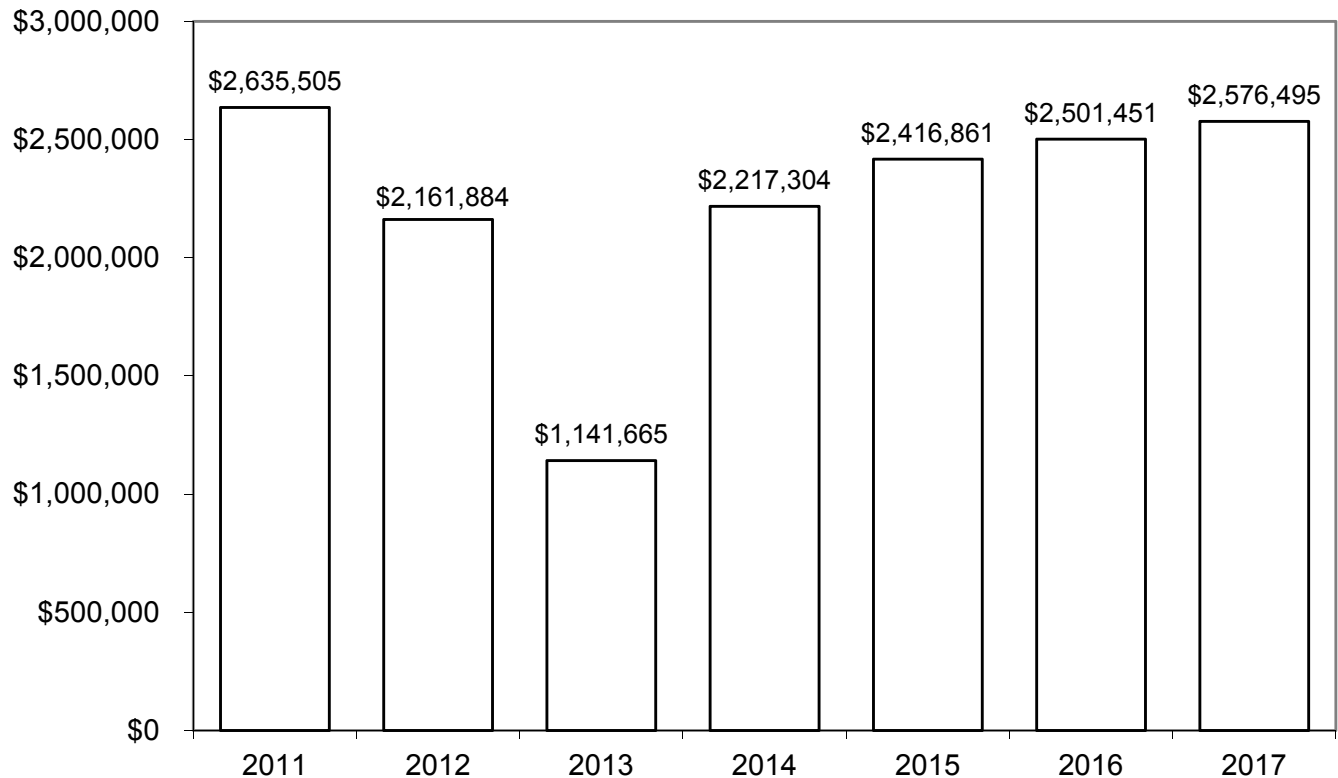
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Note: The SJCC will be adding approximately 60,000 square feet of total sellable space in September 2013. This added event space was factored into the analysis beginning with 2014 data and beyond.

Source: CSL, Facility Management, 2012

On a per-square foot basis, SJCC operating revenue levels are forecast by management to rebound post construction, but not to the levels generated in 2011 and 2012. We note that even with added revenue, the increase in sellable space resulting from the construction project reduces per-square foot totals.

SJCC Revenue Forecast – Net F&B Revenues

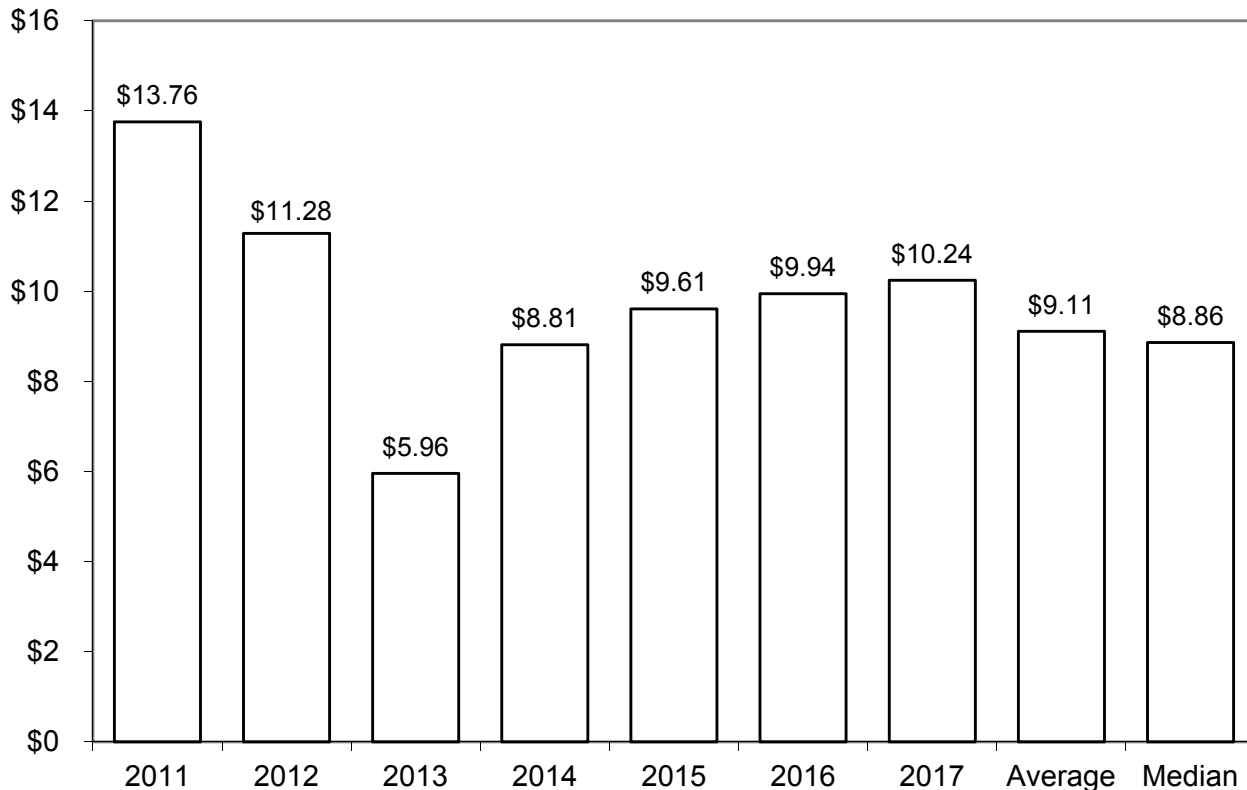


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

The SJCC food and beverage revenue levels are forecast by management to decrease during the construction period, rebounding beginning in 2014, with projected steady increase in subsequent years.

SJCC Revenue Forecast – Net F&B Revenues Per Square Foot of Sellable Space



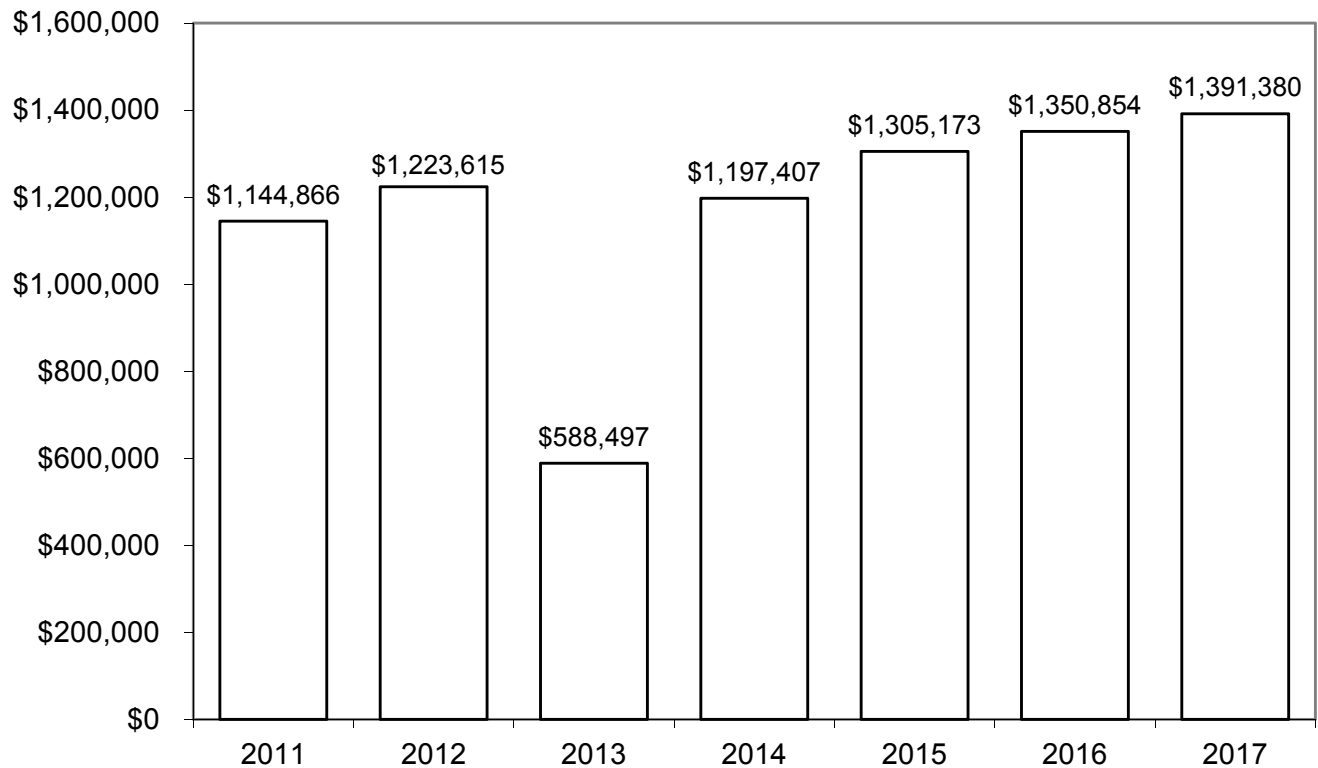
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Note: The SJCC will be adding approximately 60,000 square feet of total sellable space in September 2013. This added event space was factored into the analysis beginning with 2014 data and beyond.

Source: CSL, Facility Management, 2012

On a per-square foot basis, food and beverage revenue rebounds post-construction, but not to the levels of 2011 and 2012. While future projections reach and somewhat exceed the average and median levels at competitive and comparable centers, we believe that due to the significant revenue producing capabilities of the new space, current projections for food and beverage revenues may be somewhat conservative.

SJCC Revenue Forecast – Other Revenues



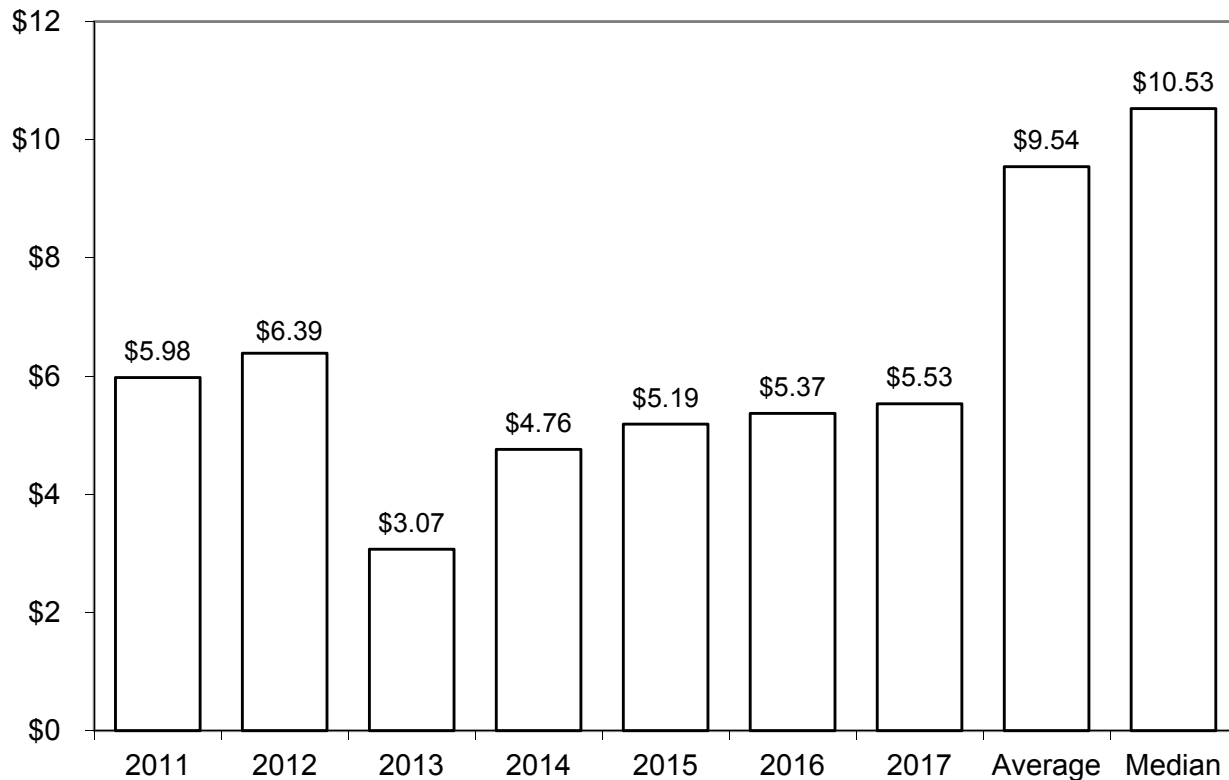
Note: Various buildings procure these services in different ways. Those providing services in-house tend to generate a higher margin and resulting higher building revenue.

Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

Projections for other revenue post-construction reach and exceed other revenue levels generated in 2011 and projected for 2012.

SJCC Revenue Forecast – Other Revenues Per Square Foot of Sellable Space



Note: Various buildings procure these services in different ways. Those providing services in-house tend to generate a higher margin and resulting higher building revenue.

Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

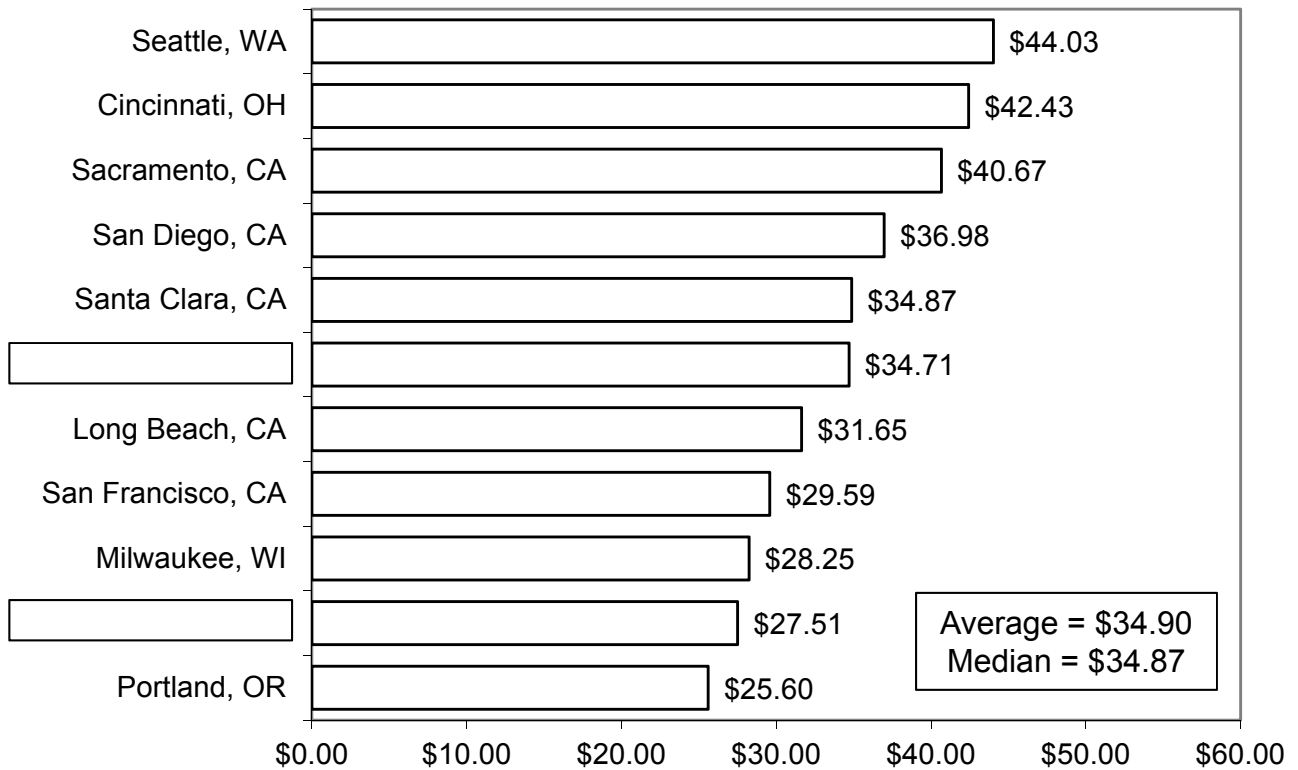
Note: The SJCC will be adding approximately 60,000 square feet of total sellable space in September 2013. This added event space was factored into the analysis beginning with 2014 data and beyond.

Source: CSL, Facility Management, 2012

On a per-square foot basis, other revenue is projected to increase post-construction, but not to the levels generated in 2011, and significantly below the average and median for comparable and competitive facilities reviewed. TSJ management has stated that they are carefully reviewing opportunities for other revenue generation, and these estimates may be revised going forward.

We also suggest that existing sources of other revenue, such as electrical revenue provided by contractors operating in the Center, be carefully reviewed and/or audited.

Total Revenues per Square Foot of Sellable Space – Competitive & Comparable Facilities

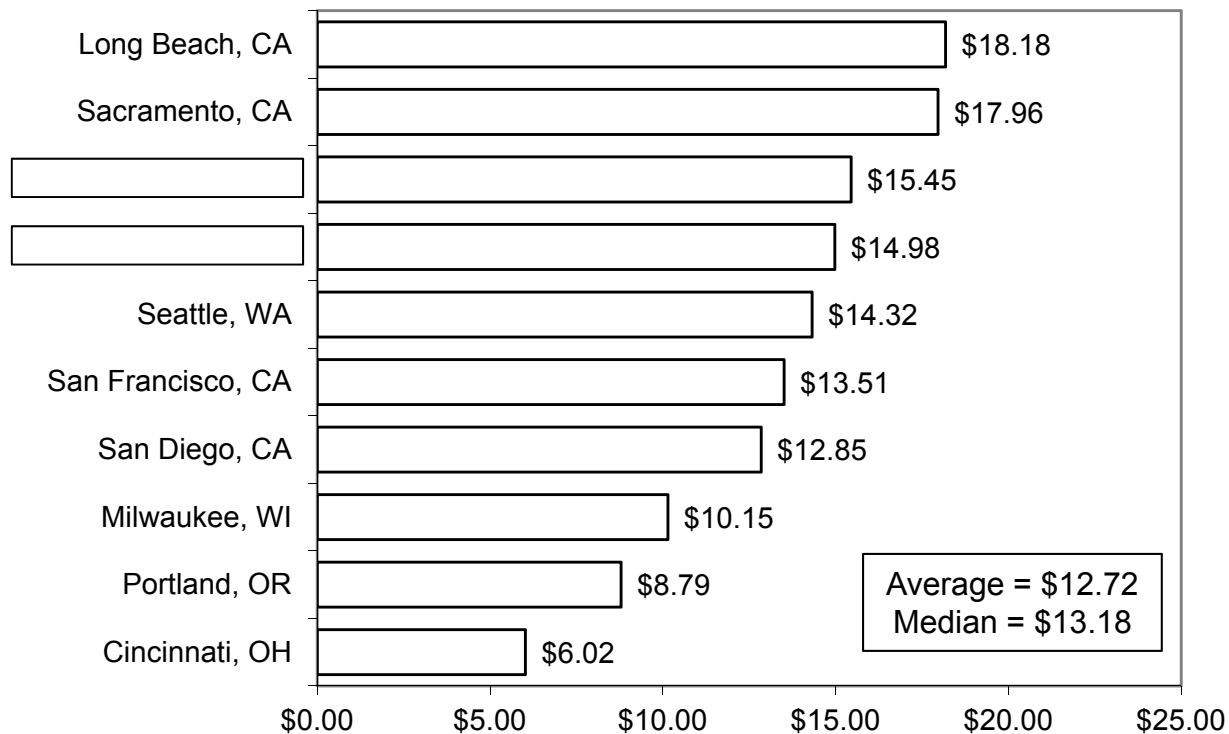


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.
 Note: Santa Clara Convention Center only able to provide total revenue and expense figures, no line-item detail available.
 Source: CSL, Facility Management, 2012

The SJCC generated \$27.51 in overall operating revenue per-square-foot of sellable space in 2010, increasing to \$34.71 in 2011. The increase was due to a variety of factors including the change to providing food and beverage services in-house versus through a private contractor. The contractor profit is now retained by the SJCC, and at the same time, client service levels appear to be increasing due to a close attention to detail that is facilitated through in-house control.

On average, the 2011 SJCC revenue per square foot totals are very close to the revenue recorded for the comparable/competitive facility set reviewed.

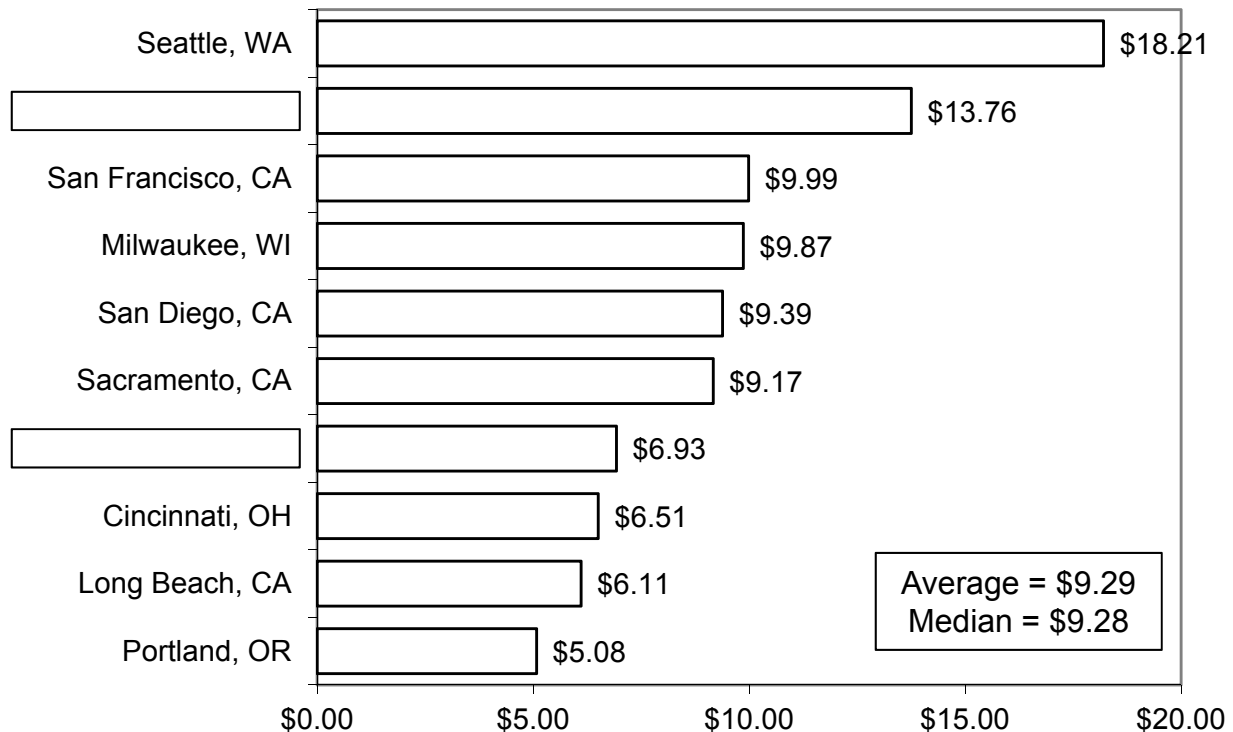
Comparison of Rental Revenues per SF of Sellable Space – Competitive & Comparable Facilities



Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.
Source: CSL, Facility Management, 2012

The SJCC generates 18 percent more than the average facility reviewed on a per-sellable square foot basis in rental revenues. These revenues declined slightly in 2011, largely due to typical business cycle fluctuations.

Comparison of Net F&B Revenues per SF of Sellable Space – Competitive & Comparable Facilities

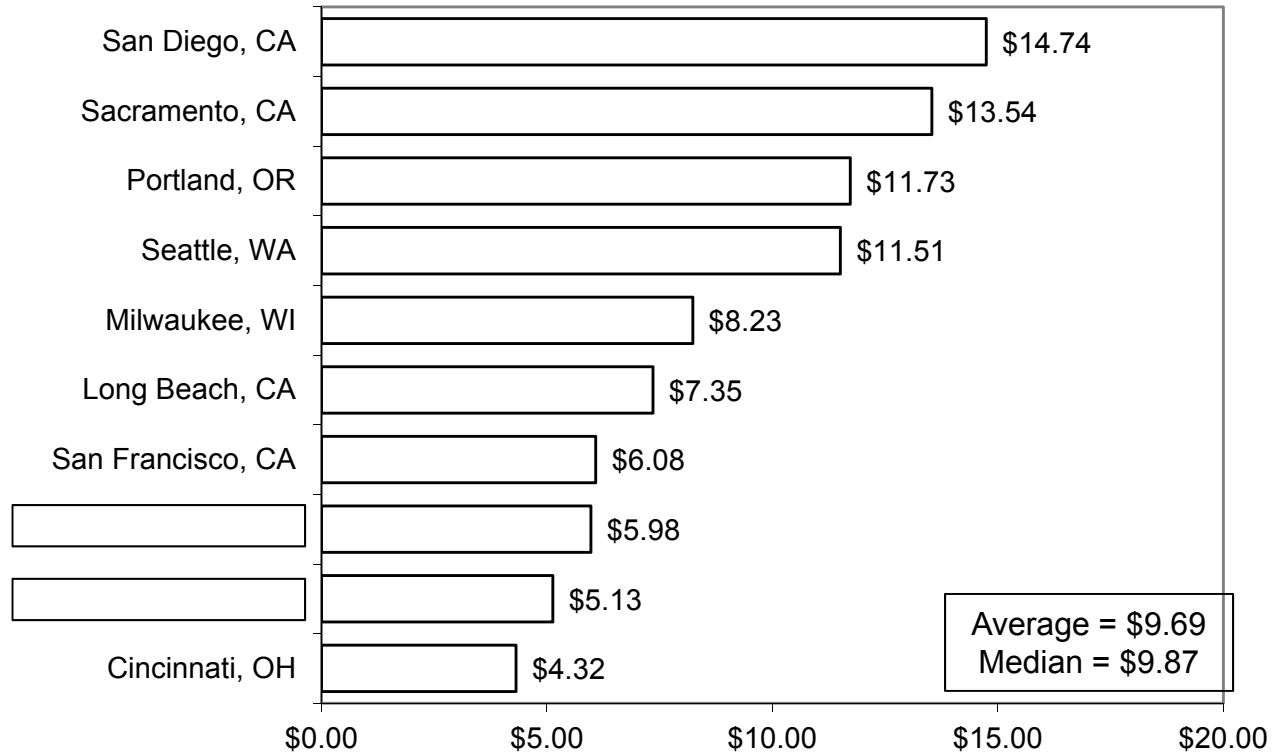


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.
Source: CSL, Facility Management, 2012

The SJCC generated 48 percent more than the average facility reviewed on a per-sellable square foot basis in net food and beverage revenues in 2011. As previously noted, the decision to take food and beverage services in-house, and retain the associated profit, has resulted in these significant revenue increases.

It should be noted that successfully providing food and beverage service requires the type of significant experience that TSJ management now offers. Going forward, it will be important that future management personnel possess this type of food service industry experience in order to support in-house food and beverage service.

Comparison of Other Revenues per SF of Sellable Space – Competitive & Comparable Facilities



Note: Various buildings procure these services in different ways. Those providing services in-house tend to generate a higher margin and resulting higher building revenue.

Note: Other revenues consist of items such as, but not limited to: net AV, electrical and telecommunications revenue, etc.

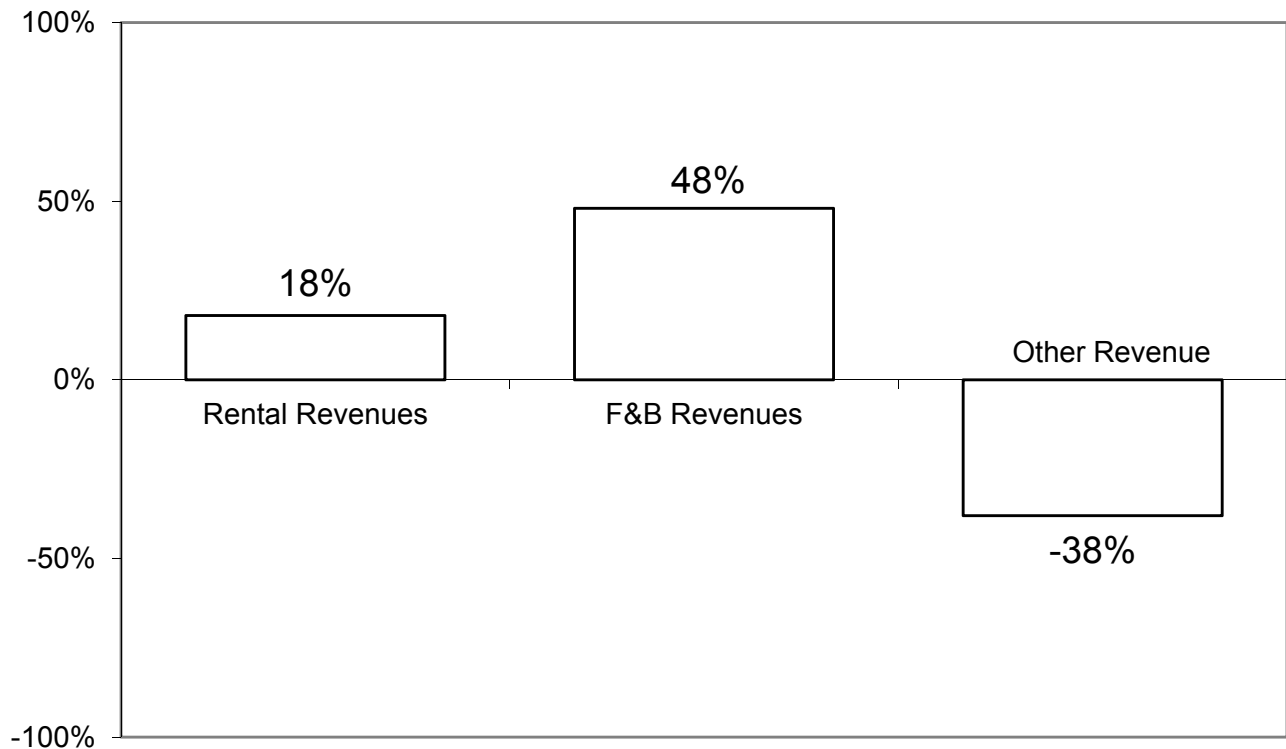
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

Other revenues include those for audio/visual, telecommunications, electric, cleaning, labor chargebacks, advertising/sponsorships and other such sources. Some centers provide several of these services in-house, thereby driving higher net revenue. In some cases, centers charge back labor expenses to the client for cleaning and related services in order to create revenue streams.

The SJCC generated 38 percent less other revenue compared to the average facility on a per-sellable square foot basis. We will work with TSJ management to continue to evaluate opportunities to generate new revenue from these sources, while at the same time avoiding a “nickel and dime” fee approach that will negatively impact sales.

Excess SJCC Revenues Relative to the Average Facility on a Per Sellable Square Foot Basis



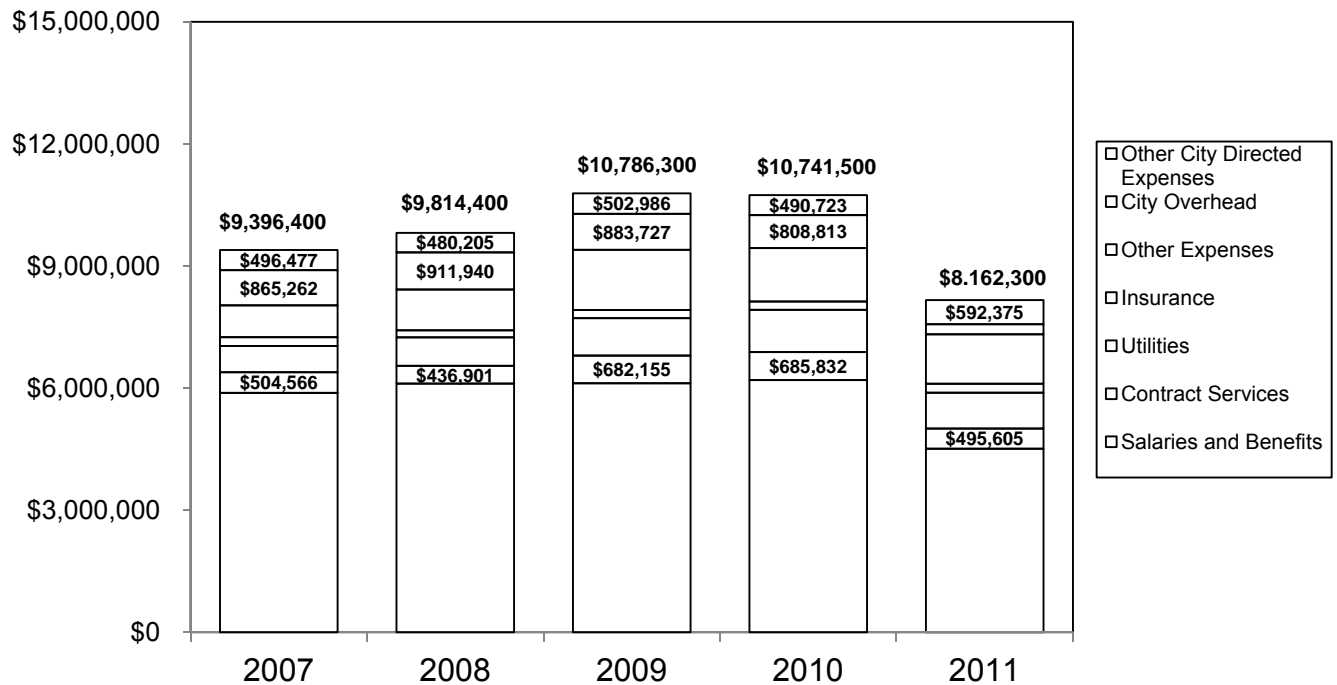
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

This summary data highlights the superior performance of TSJ with respect to convention center rental and food and beverage revenue, as well as the shortfall in other revenue.

Competitive/Comparable Facility Expense Analysis

Summary of SJCC Operational Expenses by Type (2007 – 2010)

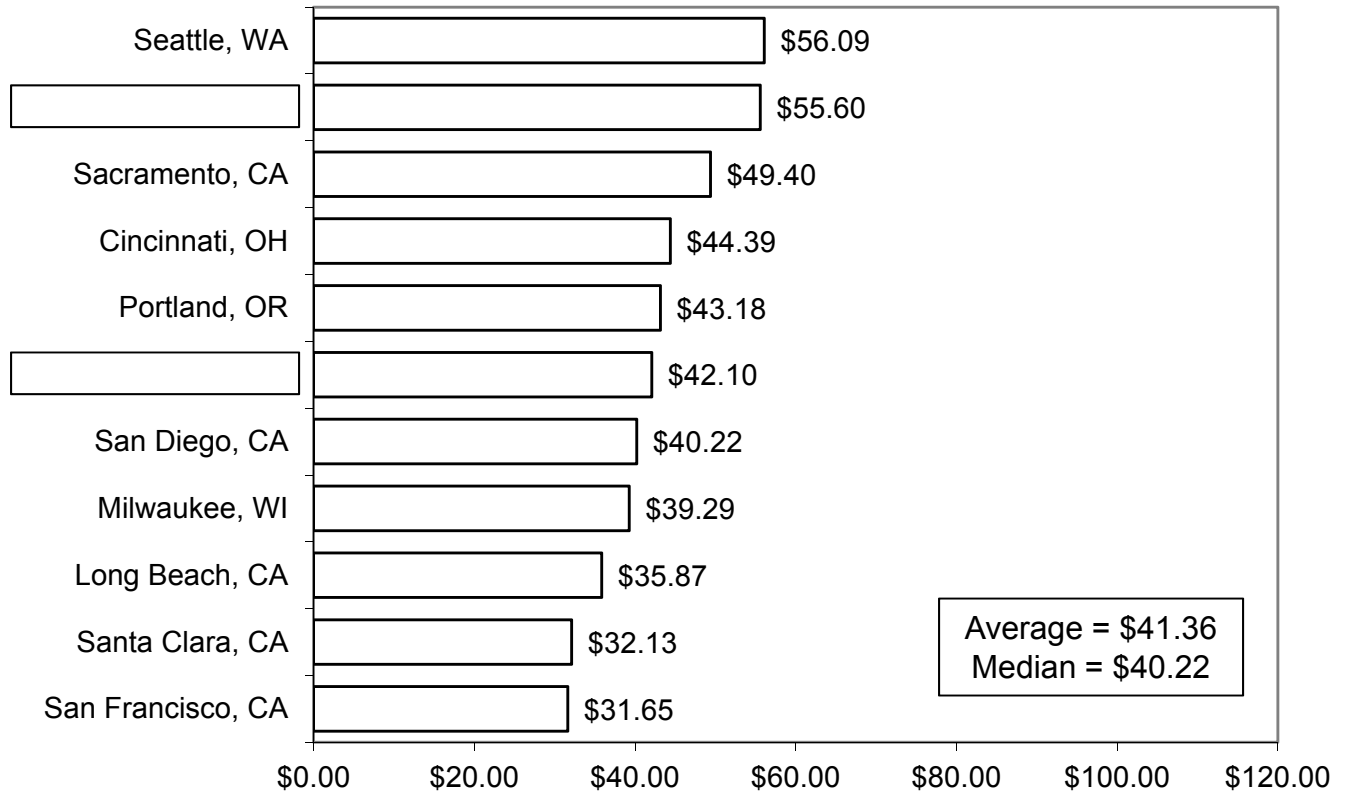


Note: Food and beverage service brought in-house in 2009.
 Note: Financial operations from Parkside and South Hall are not included.
 Source: CSL International, facility management, 2012

TSJ operating expenses in 2011 reflect a fairly significant decrease in salaries and benefits. While this is likely an appropriate response to current revenue challenges, there may be long term negative implications to such reductions in terms of customer service and facility maintenance. It is important to note that with the recent shift from using fixed in favor of variable labor, SJCC management has more flexibility to add staff during need periods, and reduce staff during slower periods. This will help control staffing costs going forward.

We also note that there are several planned changes in how Other City Direct Expenses and City Overhead are charged. The net result will likely be an increase in city charges to the SJCC of \$150,000 to \$200,000.

Comparison of Total Expenses per Square Foot of Sellable Space – Competitive & Comparable Facilities



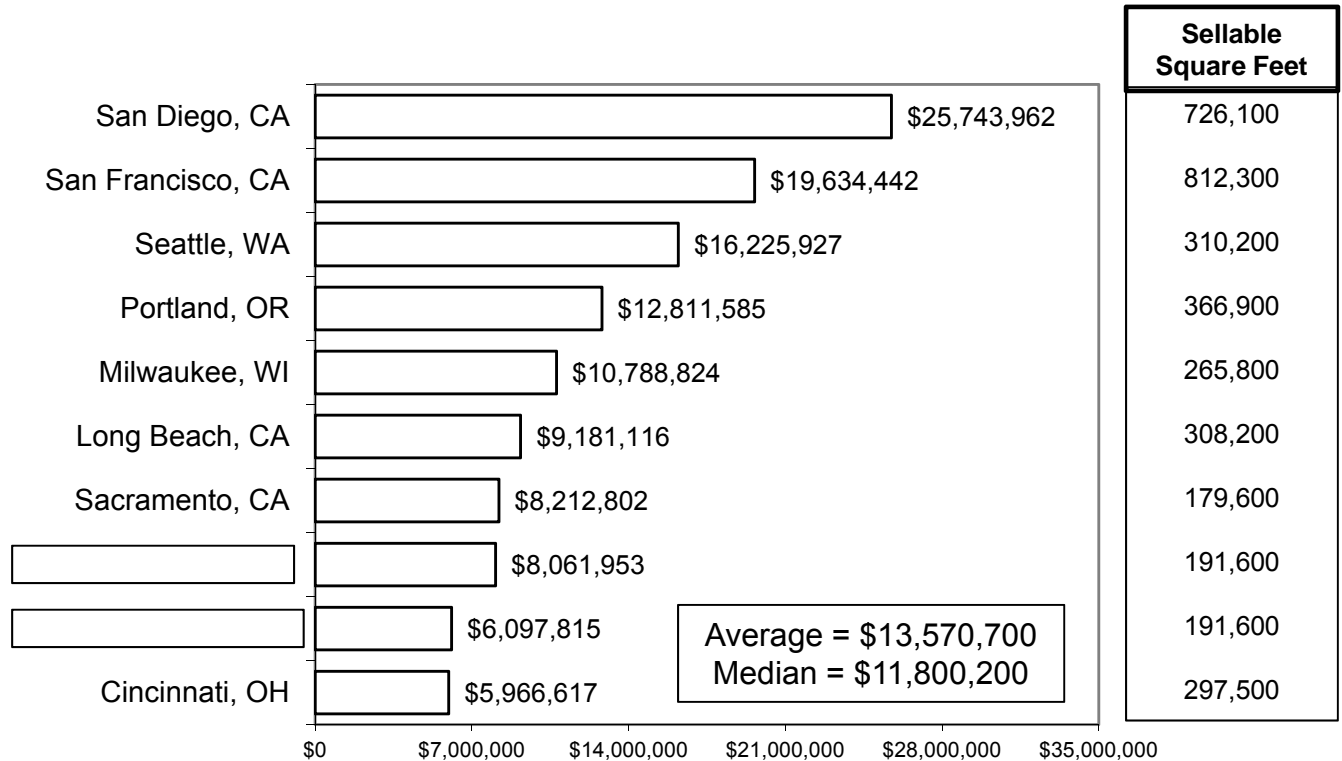
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Note: Only total revenue and expense data was provided by the Santa Clara Convention Center.

Source: CSL, Facility Management, 2012

With respect to total operating expenses, the SJCC operated at a level two percent higher than the average facility reviewed on a per-sellable square foot basis in 2011. This represents a significant decrease in overall expenses per-square foot from 2010.

Comparison of Total Adjusted Expenses – Competitive & Comparable Facilities



Note: Salaries and Benefits and Contracted Services expenses adjusted using Bureau of Labor Statistics data specific to each market. Utilities expenses adjusted using Department of Energy data regarding average commercial kilowatt prices per market. Repair and Maintenance, General and Administrative, Supplies and Other Expenses adjusted based on Cost of Living data specific to each market.

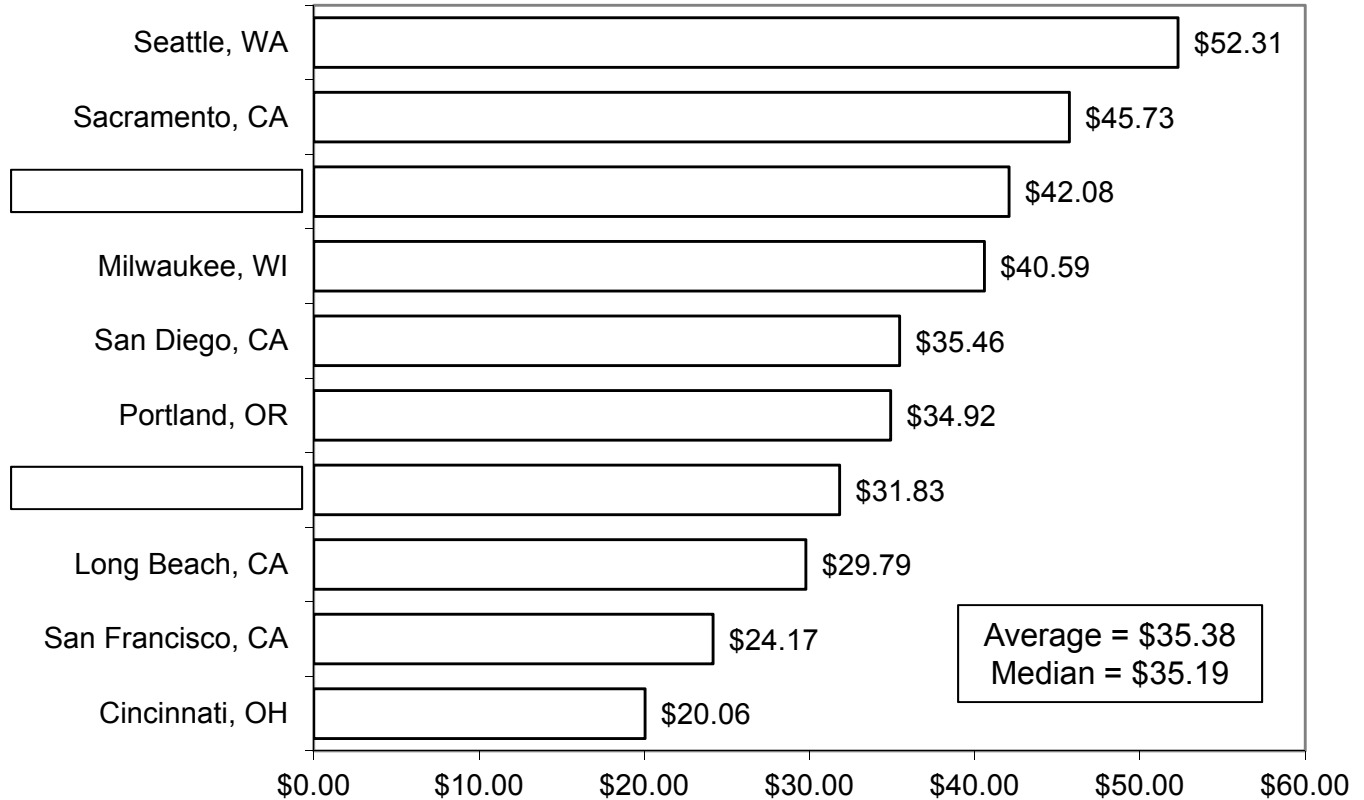
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

We have also analyzed SJCC and comparable/competitive center expenses, adjusted for local market conditions. These adjustments reflect local utility cost structures and cost of living data. The chart also presents the total square footage of sellable space at each of the centers reviewed.

The SJCC adjusted operating costs decreased by approximately \$1.96 million between FY 2010 and 2011.

Comparison of Total Adjusted Expenses per SF of Sellable Space – Competitive & Comparable Facilities

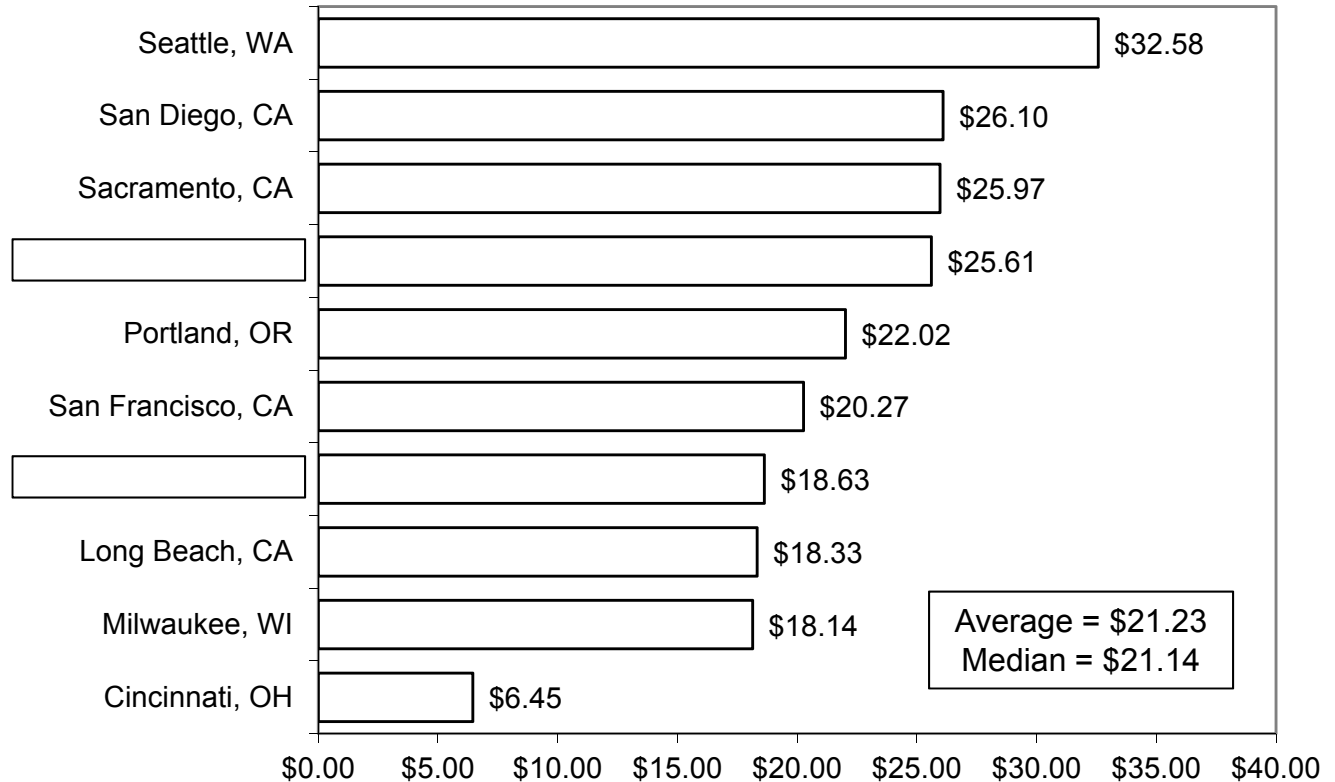


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

In fy2011, the SJCC operated with a total adjusted expense level that was 10 percent below the average of facilities reviewed on a per-square foot basis. SJCC expense measures dropped significantly from 2010 to 2011.

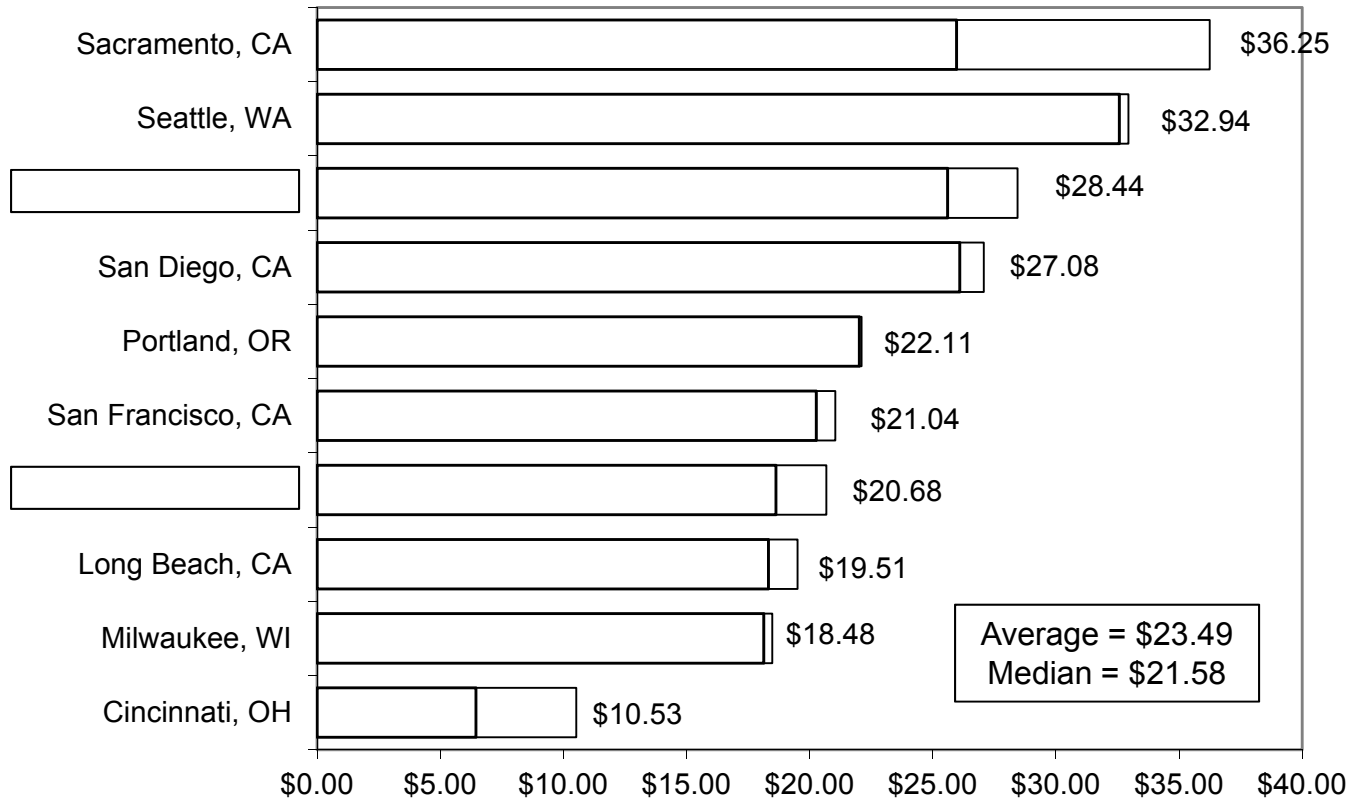
Comparison of Adjusted Salaries and Benefits per Square Foot – Competitive & Comparable Facilities



Note: Salaries and Benefits and Contracted Services expenses adjusted using Bureau of Labor Statistics data specific to each market.
 Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.
 Source: CSL, Facility Management, 2012

We have also focused on expenses by category. As presented above, the salary and benefit expenses for the SJCC in 2011 were 12 percent lower than those for the facilities reviewed. There was a significant drop in salary and benefit costs per-square foot between 2010 and 2011. As previously noted, there may be challenges maintaining high quality service and maintenance with sustained low compensation levels.

Comparison of Adjusted Salaries and Benefits and Contracted Labor per Square Foot – Competitive & Comparable Facilities

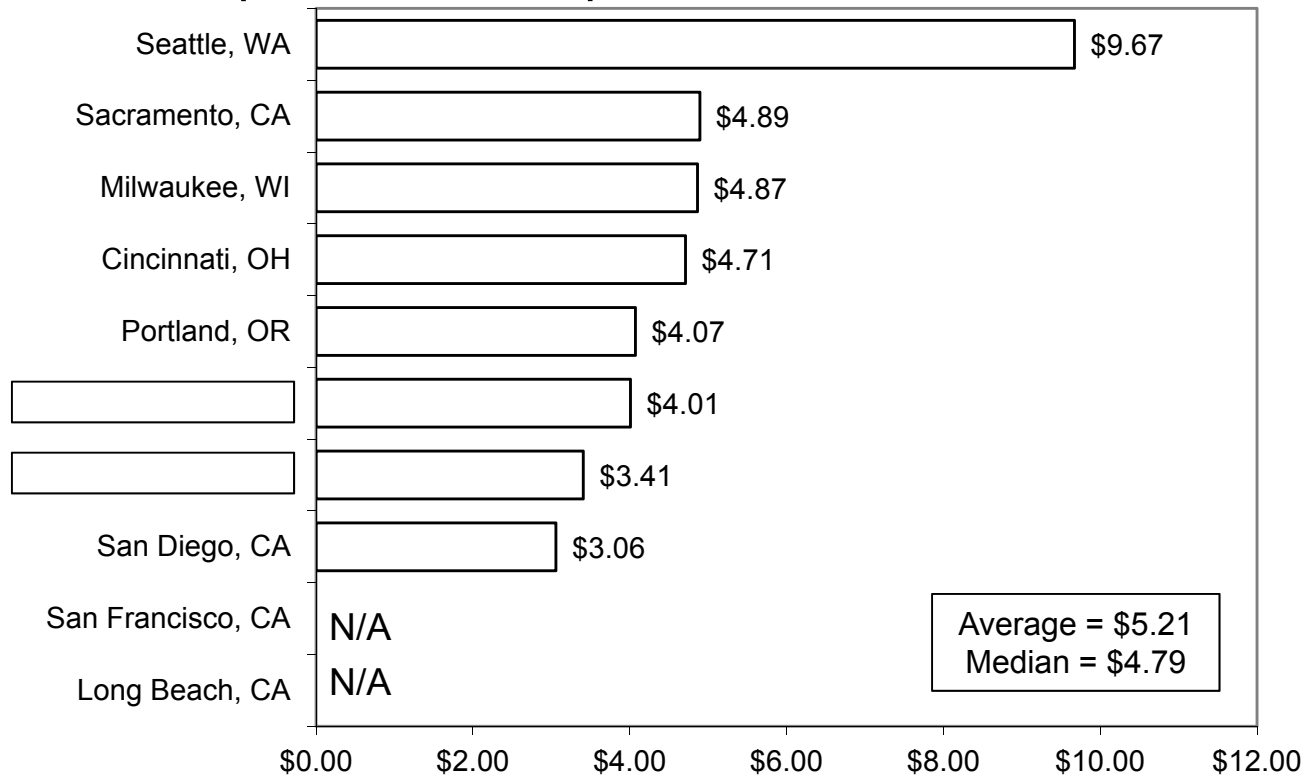


Note: Salaries and Benefits and Contracted Services expenses adjusted using Bureau of Labor Statistics data specific to each market.
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.
Source: CSL, Facility Management, 2012

There is no industry-wide consistency with respect to services that are provided by in-house staff or through a vendor. As a result, a center with a significant number of contracted vendors may show a lower salary cost. Conversely, centers that decide to provide more services in-house will show a higher salary structure.

We have therefore developed the presentation above which shows combined adjusted salaries and benefits AND contract service costs. As noted above, the SJCC operated with costs that were 12 percent below the average for competitive and comparable facilities reviewed.

Comparison of Adjusted Utilities per Square Foot – Competitive & Comparable Facilities



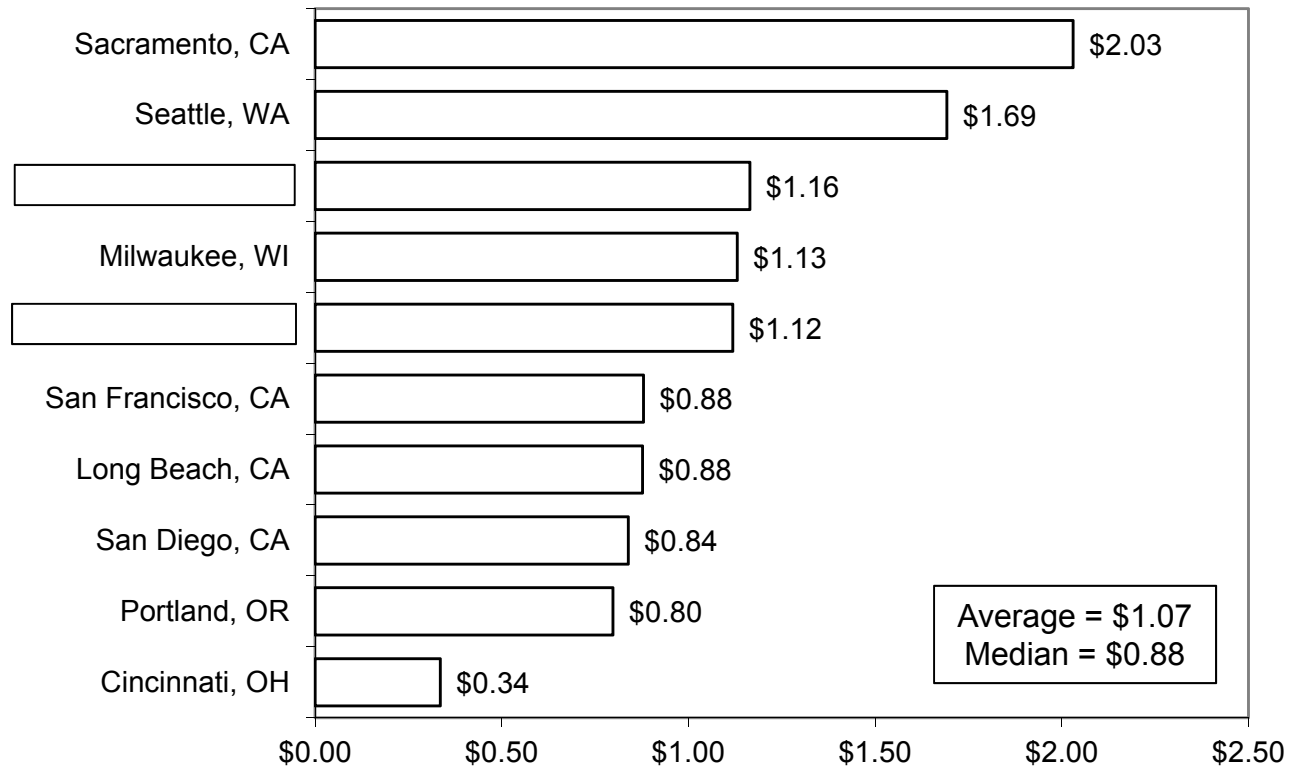
Note: Utilities expenses adjusted using Department of Energy data regarding average commercial kilowatt prices per market.
Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

The adjusted utility expenses for the SJCC dropped somewhat between 2010 and 2011. New building management systems are being installed as part of the on-going construction project that should allow for these lower costs per-square foot to continue. The 2011 levels are approximately 52 percent lower than the comparable/competitive facility average. Excluding Seattle, the 2011 SJCC costs are 27 percent below average.

Note that for San Francisco and Long Beach, the city pays a significant portion of center utility costs as part of the overall city budget. These venues are therefore not included in the analysis.

Comparison of Insurance per Square Foot – Competitive & Comparable Facilities

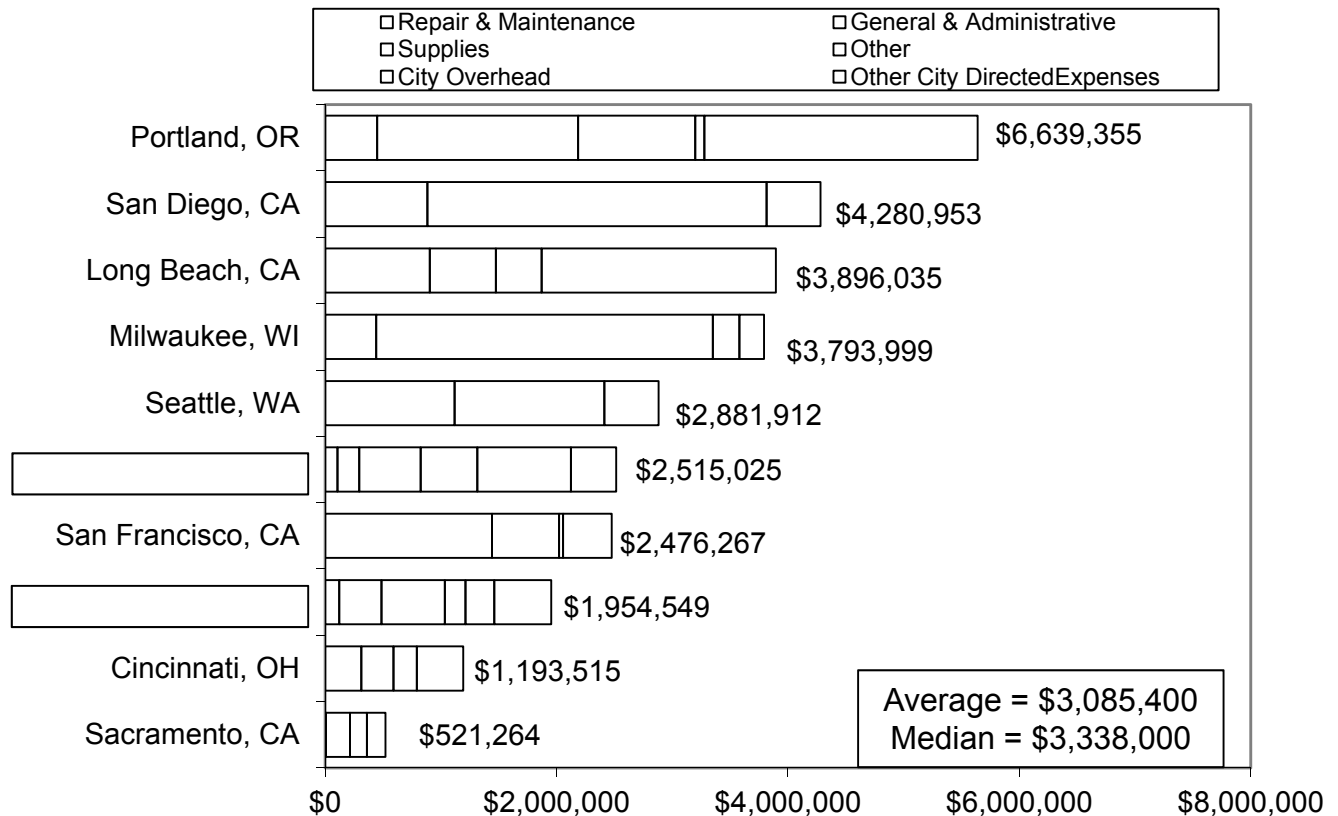


Note: Average and median calculations exclude the SJCC.
Source: CSL, Facility Management, 2012

Insurance costs per square foot for the SJCC include a \$100,000 allocation as part of the City overhead charge. The 2011 SJCC insurance costs are eight percent higher than the average facility cost per square foot and 32 percent higher than the median cost.

Consideration should be given to reviewing the current insurance contracts and city allocation methods.

Comparison of All Other Expenses (excluding contract labor) - Competitive & Comparable Facilities



Note: All Other Expenses includes: Repair and Maintenance, General and Administrative, Supplies and Other Expenses.

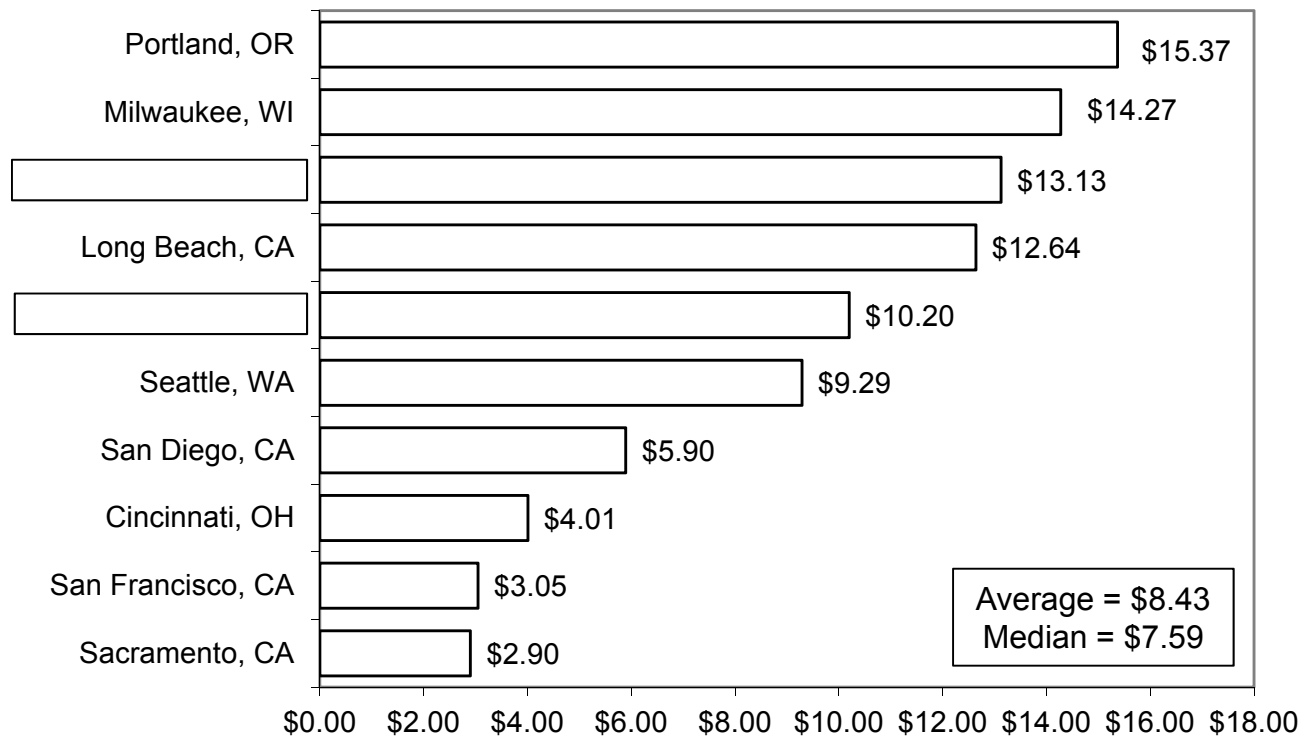
Note: Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

The above chart summarizes all other operating expenses for the facilities reviewed. Expenses for the SJCC dropped in 2011, due in part to a reduction in city overhead charges and a slight drop in other unallocated costs. Going forward, the city overhead costs are expected to increase to approximately \$1.0 million, resulting in a \$150,000 to \$200,000 net increase in city allocated expenses.

Note that several of the centers that operate under authority structures that are largely distinct from the public sector. These authorities therefore have to pay for all overhead and tend to have larger executive staffs to manage a fully stand-alone operation. This can result in a relatively large general/administrative charges.

Comparison of All Other Expenses (excluding contract labor) per Square Foot of Sellable Space – Competitive & Comparable Facilities



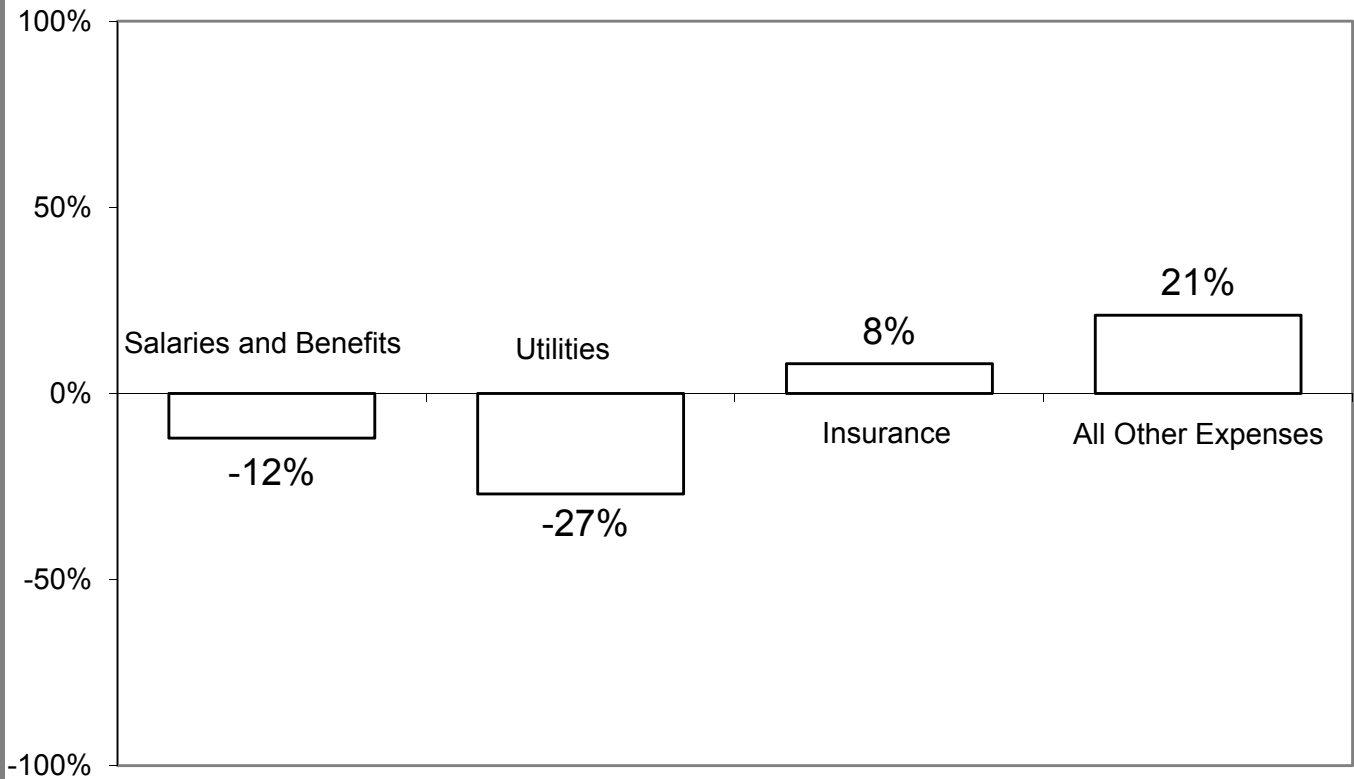
Note: All Other Expenses includes: Contract Services, Repair and Maintenance, General and Administrative, Supplies and Other Expenses.

Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

Other expenses per square foot for the SJCC dropped somewhat between 2010 and 2011, but were 21 percent higher than the average facility reviewed on a per-square foot basis. The adjustment in city allocated charges will add somewhat to these costs for 2013 and beyond.

Excess SJCC Adjusted Expenses Relative to the Average Facility on a Per Sellable Square Foot Basis Contract Labor as Part of Salaries and Benefits Expense

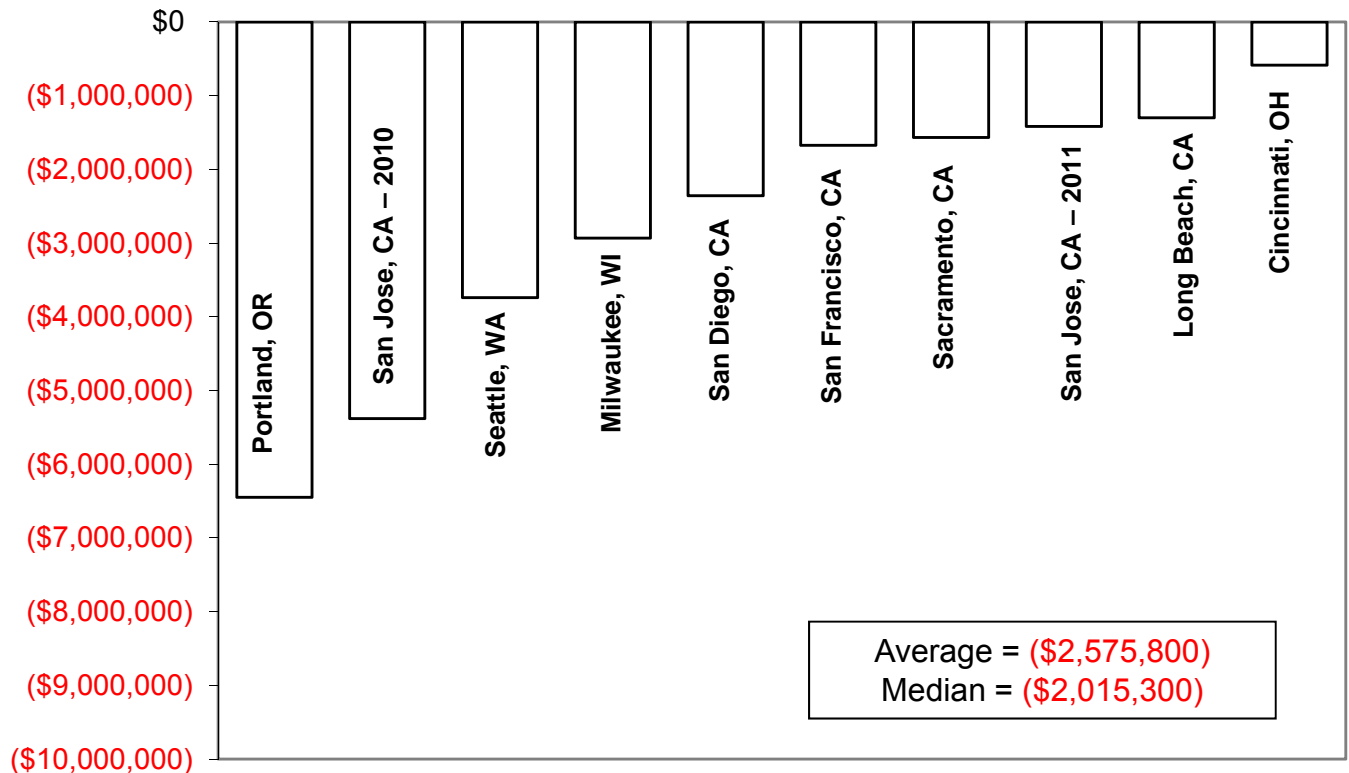


Note: Sellable square feet include all available exhibit, meeting and ballroom space. Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

As noted above, SJCC adjusted expenses per square foot of sellable space are generally below the averages set by the competitive and comparable facilities reviewed. Salaries/benefits and utilities were somewhat lower than average, while insurance and other expense costs were higher than the average for the facilities reviewed.

Comparison of Net Financial Operations – Competitive and Comparable Facilities



Notes: Average and median calculations exclude the SJCC.

Source: CSL, Facility Management, 2012

The above chart presents the net operating subsidies for comparable and competitive centers reviewed. Note that the net subsidy for the SJCC was significantly reduced between 2010 and 2011. This results from both an increase in revenue and a decrease in expenses. While the new expansion project should result in higher revenues, the lower than average net subsidy for 2011 should not necessarily be used as a planning target going forward. There may be some need to increase expenses due to substantial cuts in salaries over the past year.

Competitive/Comparable Facility Rental Rate Comparison

Rental Rate per Gross Square Foot of Exhibit Space – Competitive and Comparable Facilities

Rental Rate Per Gross Sq. Ft. (GSF): Exhibit Space			
Facility:	Low:	High:	
Gwinnett Center	\$0.09	\$0.17	Discounted rate for multi-day events and events w ith a \$25 per person minimum F&B purchase.
Long Beach Conv. & Entertainment Ctr.	\$0.15	\$0.15	One comp move-in/out day w ith each paid event day; maximum of three comp days. Additional move days at 50 percent of prevailing rate.
Frontier Airlines Center	\$0.16	\$0.16	Final exhibit hall space rental is based on minimum flat rental or \$0.98 per NSF rate, w hichever is greater
Oregon Convention Center	\$0.09	\$0.11	Final exhibit hall space rental is based on minimum flat rental or \$0.29 per NSF rate, w hichever is greater
San Diego Convention Center	\$0.16	\$0.16	Complimentary move-in and move-out days may be provided equal to number of show days
Moscone Center	\$0.20	\$0.20	Exhibit hall rental requires proven record of minimum 1,800 hotel room nights generated; \$0.39 per NSF rate.
Washington State Convention Center	\$0.14	\$0.14	Event equipment items are included in base rent (w ith some exceptions) and include items such as chairs, risers, tables, lecterns, pipe and drape, etc.; Exhibit space subject to 20 percent set-up fee in additional to rental rate.
Spokane Convention Center	\$0.09	\$0.16	Minimal difference betw een exhibit and non-exhibit event rates; difference occurs w ith Hall D being charged nearly \$0.05 per GSF higher than other halls, as it doubles as pre-function space for Halls A-C.
San Jose Convention Center	\$0.21	\$0.22	Does not include South Hall or Parkside Hall rates.
AVERAGE (excluding SJCC)	\$0.13	\$0.16	

Source: CSL, Facility Management, 2012

We have reviewed the published rental rate structure for selected comparable and competitive centers nationally. In some cases, rates vary for a center depending on quality of space being rented. Note that published rates are often adjusted downward when attempting to attract high impact events. Based on this review, the SJCC publishes a higher rate per-square foot for exhibit space as compared to centers reviewed.

TSJ management has indicated that discounts are offered as needed such that the current published rate structure does not negatively impact the ability to attract conventions and tradeshow s. TSJ also conducts a Client Advisory Board meeting on a regular basis comprising approximately 25 planners of national events to evaluate issues such as pricing. Given the disparity between published rates, consideration should also be given to further evaluation (through event planner surveys) any potential negative impacts associated with such high published rates.

Rental Rate per Gross Square Foot of Meeting Space – Competitive and Comparable Facilities

Rental Rate Per Gross Sq. Ft. (GSF): Meeting Space			
Facility:	Low:	High:	
Gwinnett Center	\$0.12	\$0.51	Discounted rate for events booking space in conjunction with Exhibit Hall, Ballroom, PAC or Arena and events with minimum \$25 per person F&B purchase.
Long Beach Conv. & Entertainment Ctr.	\$0.10	\$0.27	
Frontier Airlines Center	\$0.31	\$0.69	Flat rates charged. Higher GSF rates for rooms with fewer total sellable space.
Oregon Convention Center	\$0.24	\$0.45	Meeting space, if not used for exhibits, is provided at no charge (based on availability) and is directly proportionate to the amount of exhibit space rented. Space provided will not exceed six rooms per 30,000 sq. ft.
San Diego Convention Center	\$0.15	\$0.53	
Moscone Center	NA	NA	Moscone Center does not rent individual meeting rooms. Rooms are provided for use only in conjunction with rental of major exhibit halls.
Washington State Convention Center	\$0.13	\$0.89	
Spokane Convention Center	\$0.19	\$0.46	Higher rate is for events utilizing meeting space for more than four hours
San Jose Convention Center	\$0.40	\$0.53	
AVERAGE (excluding SJCC)	\$0.18	\$0.54	

Source: CSL, Facility Management, 2012

Published rates for meeting space rental have also been reviewed. Most centers have a set of meeting space rental rates vary depending on the overall quality of the space.

We note that the low end rate charged at the SJCC is significantly higher than that charged at comparable/competitive venues. The high-end published rate is more in line with rates charged in San Diego, and lower than the rate charged in Seattle and Milwaukee.

Consideration should be given to an event planner survey to evaluate customer perceptions as to SJCC rates.

Rental Rate per Gross Square Foot of Ballroom Space – Competitive and Comparable Facilities

Rental Rate Per Gross Sq. Ft. (GSF): Ballroom			
Facility:	Low:	High:	
Gwinnett Center	\$0.12	\$0.42	Discounted rate for events booking space in conjunction with Exhibit Hall, Ballroom, PAC or Arena and events with minimum \$25 per person F&B purchase.
Long Beach Conv. & Entertainment Ctr.	\$0.12	\$0.24	
Frontier Airlines Center	\$0.34	\$0.67	Final ballroom space rental is based on minimum flat rental or \$2.06 per NSF rate, whichever is greater; Lower flat rate amount is Tradeshow rate, higher amount is for meetings and banquets.
Oregon Convention Center	\$0.22	\$0.29	Lower daily rental rate is for conventions with exhibits and trade shows; higher rate is for all other events.
San Diego Convention Center	\$0.11	\$0.25	
Moscone Center	NA	NA	Moscone Center does not rent individual meeting rooms. Rooms are provided for use only in conjunction with rental of major exhibit halls.
Washington State Convention Center	\$0.10	\$0.24	Ballrooms subject to \$300 set-up fee in additional to rental rate.
Spokane Convention Center	\$0.15	\$0.23	
San Jose Convention Center	\$0.42	\$0.42	
AVERAGE (excluding SJCC)	\$0.16	\$0.33	

Source: CSL, Facility Management, 2012

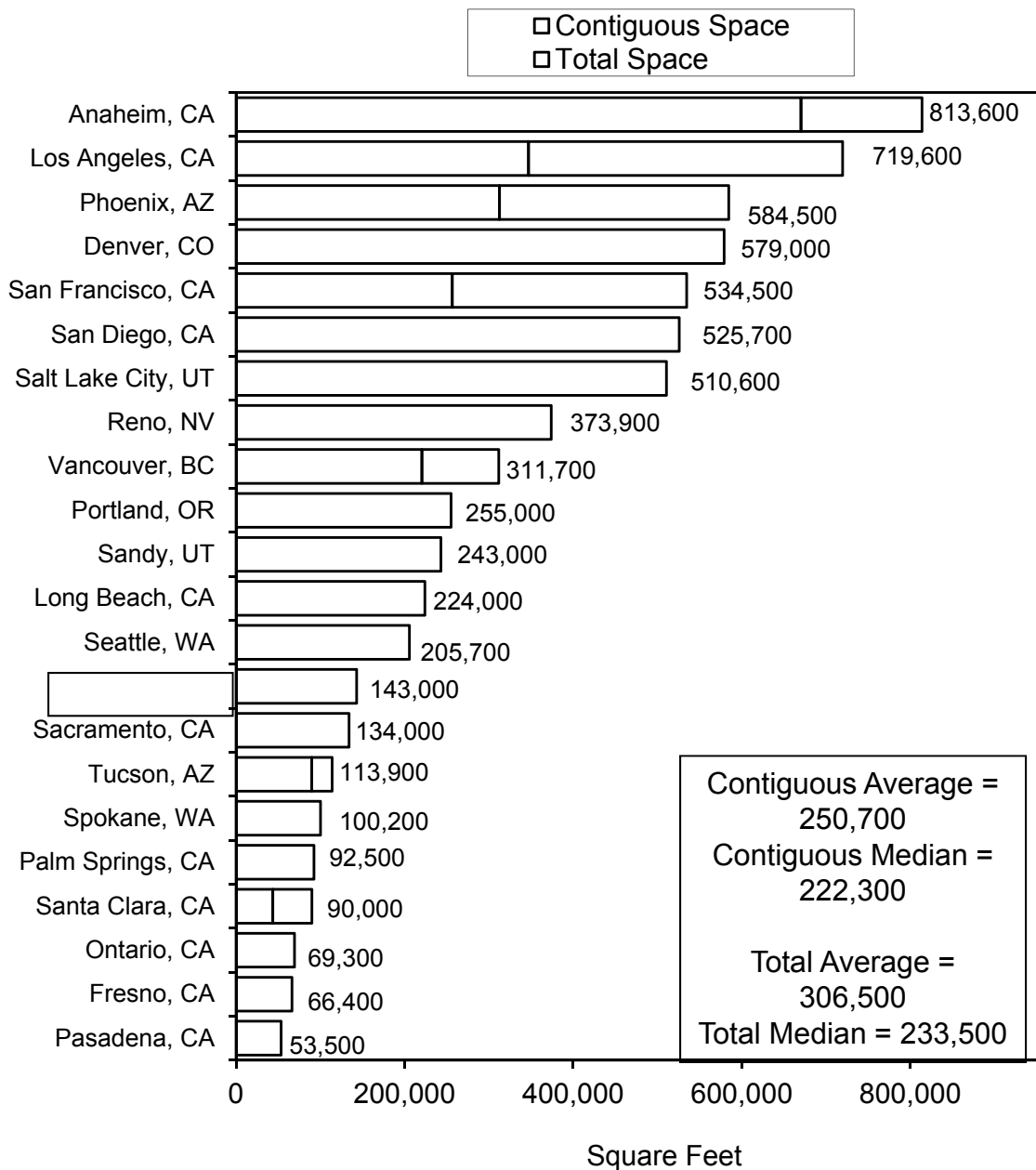
The published rate for SJCC ballroom space rental is at the high end of the comparable/competitive facility set reviewed.

With the eventual completion of the SJCC construction project, the qualify and amount of meeting and ballroom space will increase significantly. Even so, given the comparatively high rates currently charged, consideration should be given to an evaluation of existing rates and their impact (if any) on business generation.

There may be an opportunity for significant positive publicity through an advertising/PR effort were to be built around a published rate reduction.

Broader Convention Industry Facility Space Comparison

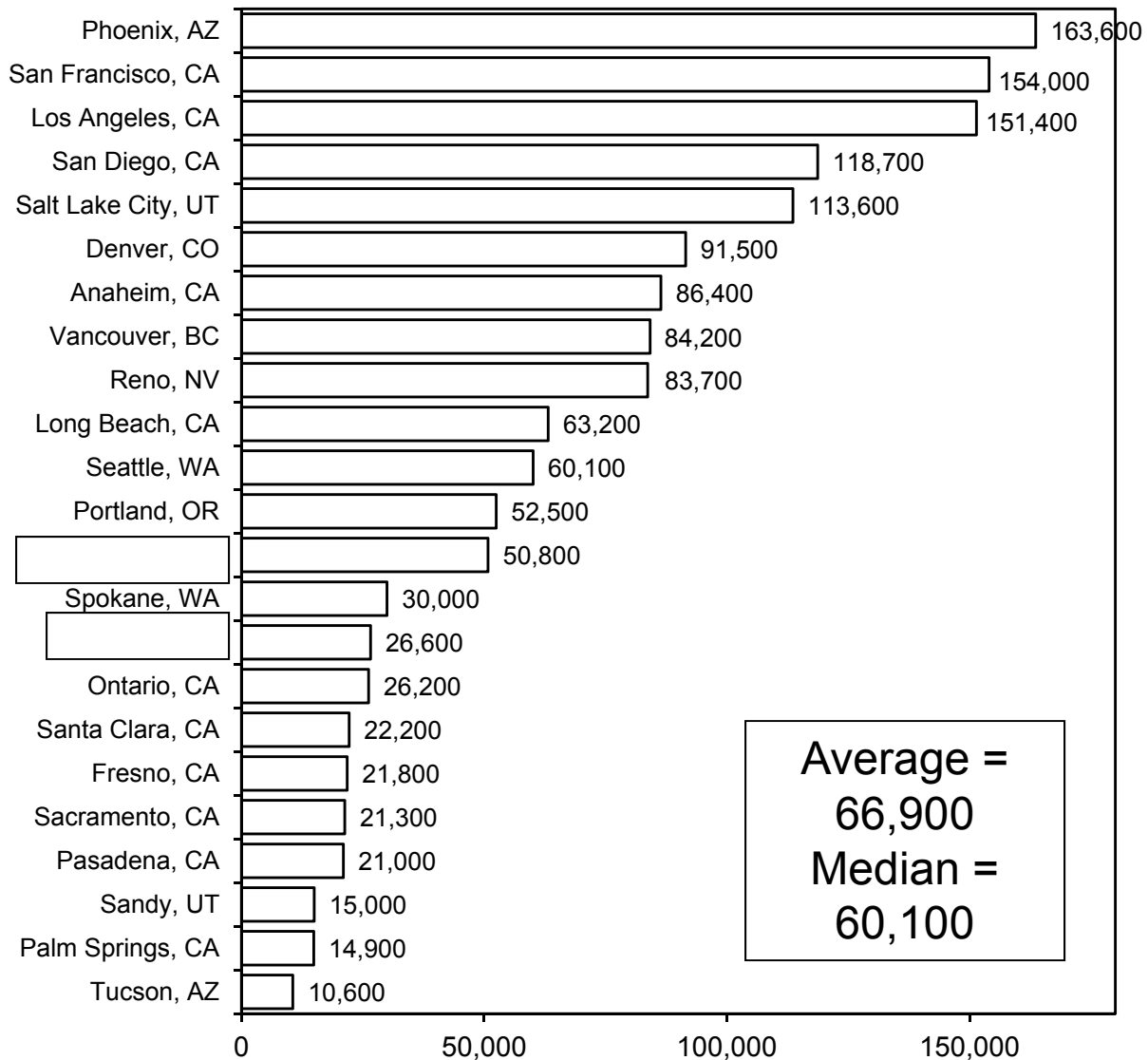
Comparison of Prime Exhibit Space – Competitive and Comparable Facilities



Source: facility floor plans, management, and industry publications, 2011

The data presented above provide a comparison of prime exhibit space amongst a broader set of national convention centers. The SJCC offers a relatively low amount of prime exhibit space.

Comparison of Meeting Space – Competitive and Comparable Facilities

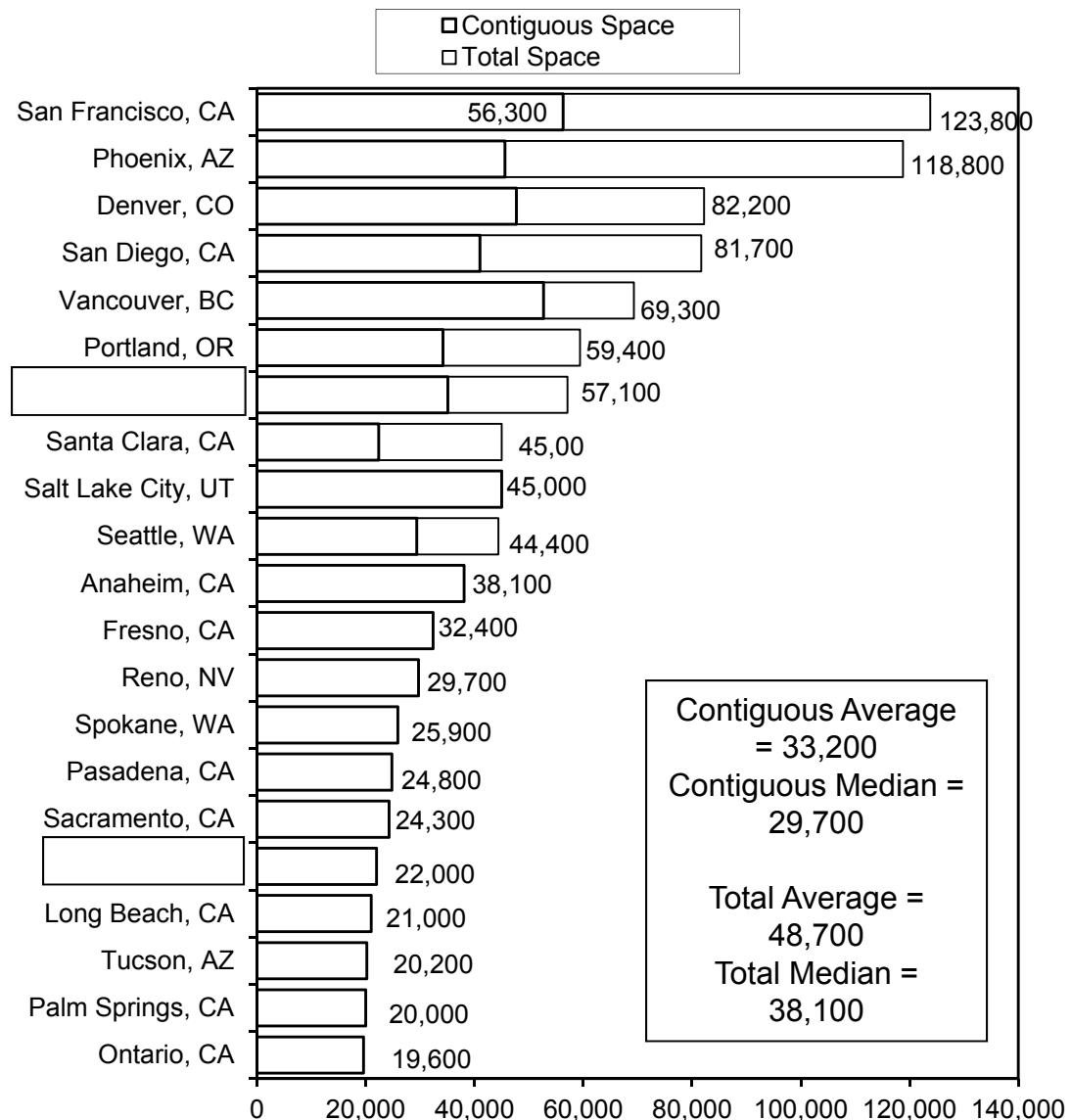


Source: facility floor plans, management, and industry publications, 2011

Square Feet

SJCC meeting space will increase significantly, comparable more with Portland and Seattle as opposed to Ontario and Santa Clara. The SJCC meeting space will still be lower than the average amongst the centers reviewed.

Comparison of Ballroom Space – Competitive and Comparable Facilities



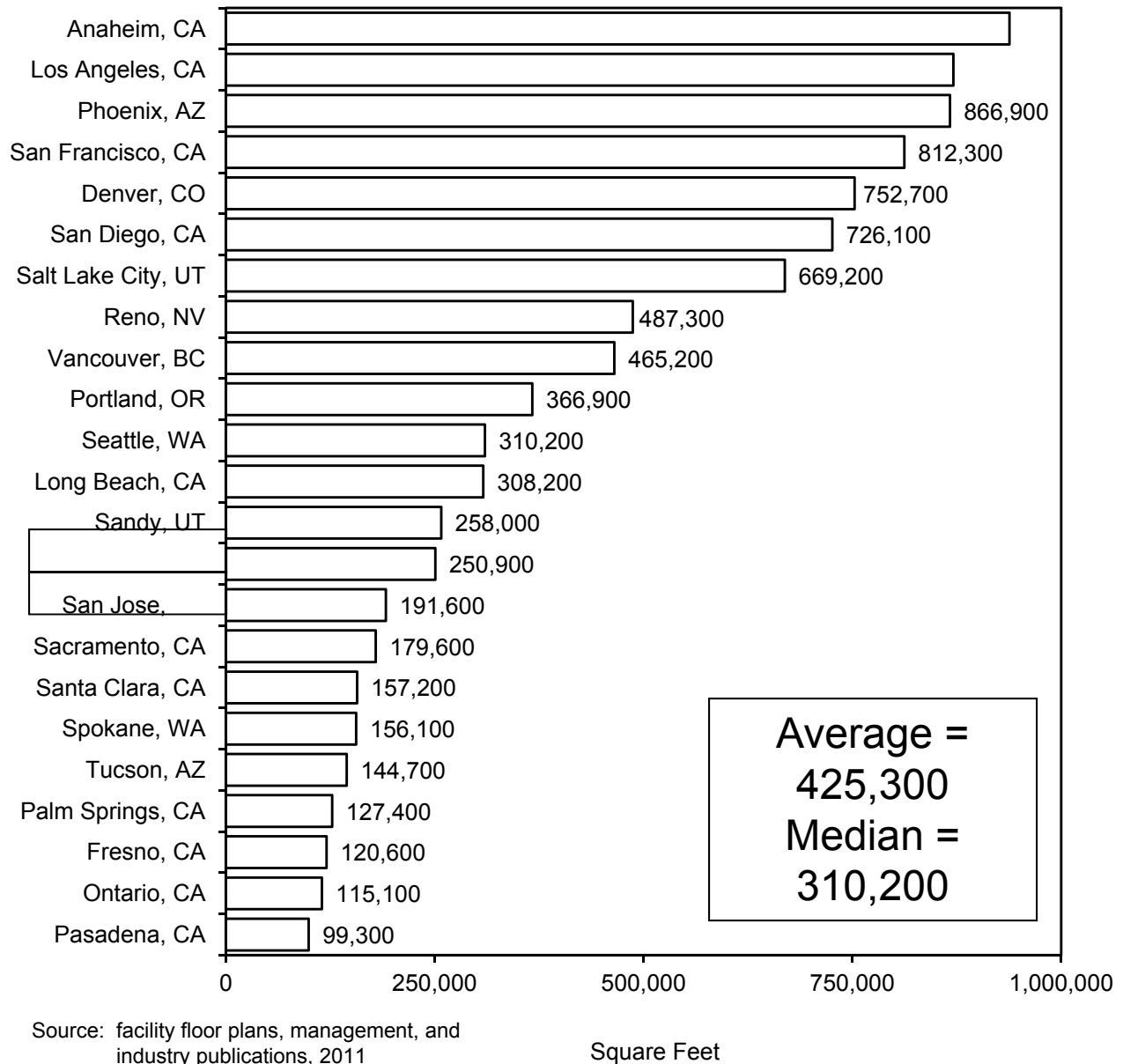
Note: The Los Angeles Convention Center and the South Towne Exposition Center do not currently offer ballroom space.

Source: facility floor plans, management, and industry publications, 2011


Square Feet

The ballroom space at the SJCC will increase significantly, comparable to centers in Portland and Seattle. The new combined ballroom space total will exceed the average of facilities reviewed, and is anticipated to serve as an important generator of added SJCC revenue.

Comparison of Total Sellable Space – Competitive and Comparable Facilities

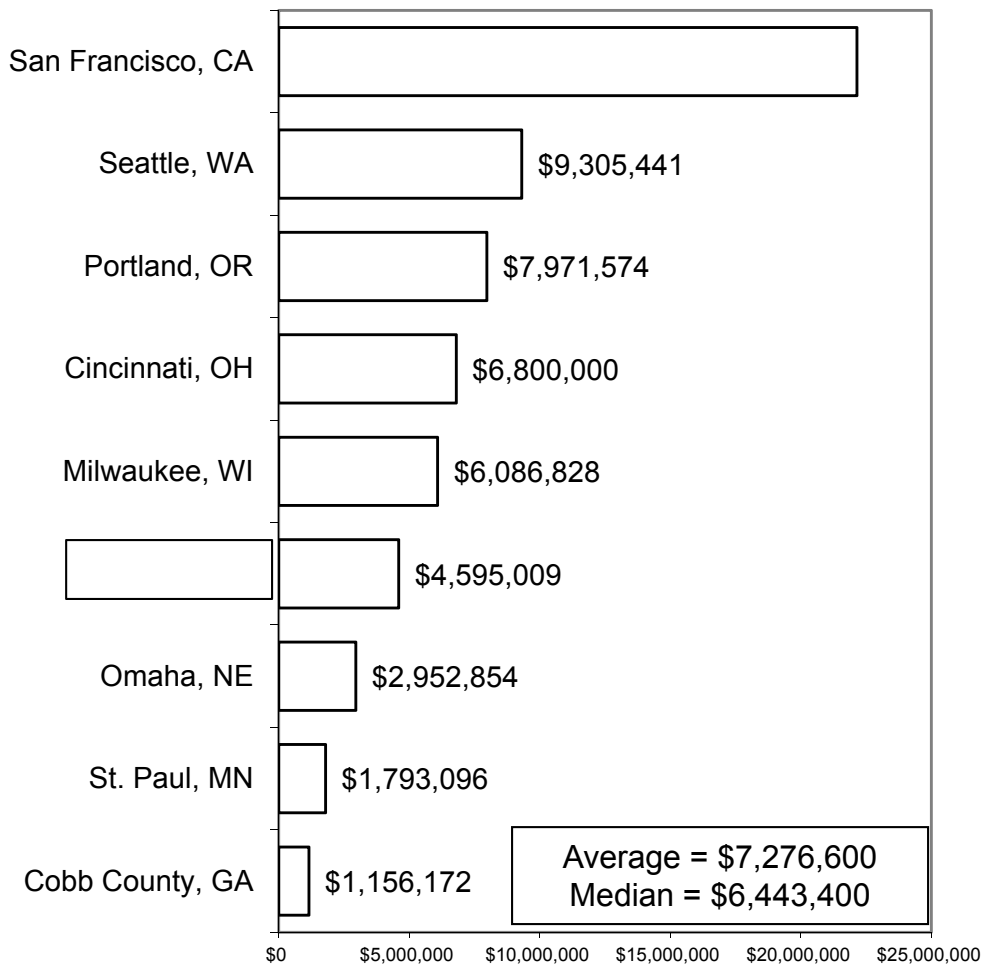


The combined sellable SJCC space will increase by approximately 59,300 square feet. While this will elevate the Center somewhat relative to competitive and comparable venues, the SJCC is still a relatively small center compared to venues in larger markets such as Anaheim, Los Angeles, Phoenix, San Francisco and others.



Competitive/Comparable Destination Marketing Organization (DMO) Analysis

Comparison of DMO Budgets – Competitive and Comparable Markets

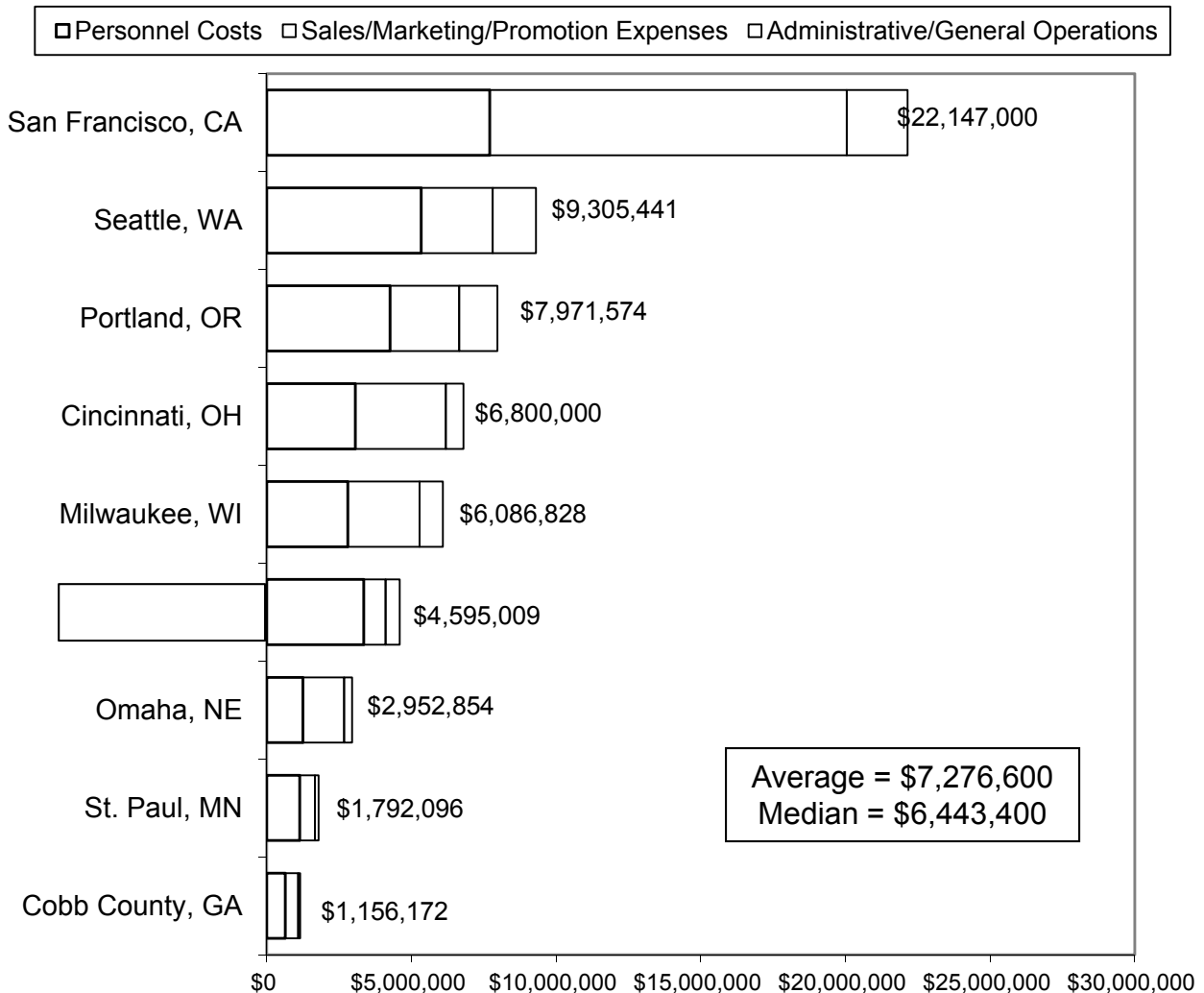


Note: Average and median calculations exclude San Jose CVB operations.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011;
CSL International, 2012

We have reviewed the budgets for destination marketing in San Jose versus selected comparable/competitive markets. The \$4.5 million spent to sell and market the San Jose destination ranks somewhat low, however it does not include the \$1.7 million generated through improvement district collections that are spent to subsidize attracting high impact events and to support destination sales efforts. The fact that the DMO operations are part of TSJ may allow for a lower administrative cost, supporting a somewhat lower overall budget. The magnitude of the national leisure travel sector for San Jose may also limit the required size of the destination marketing budget.

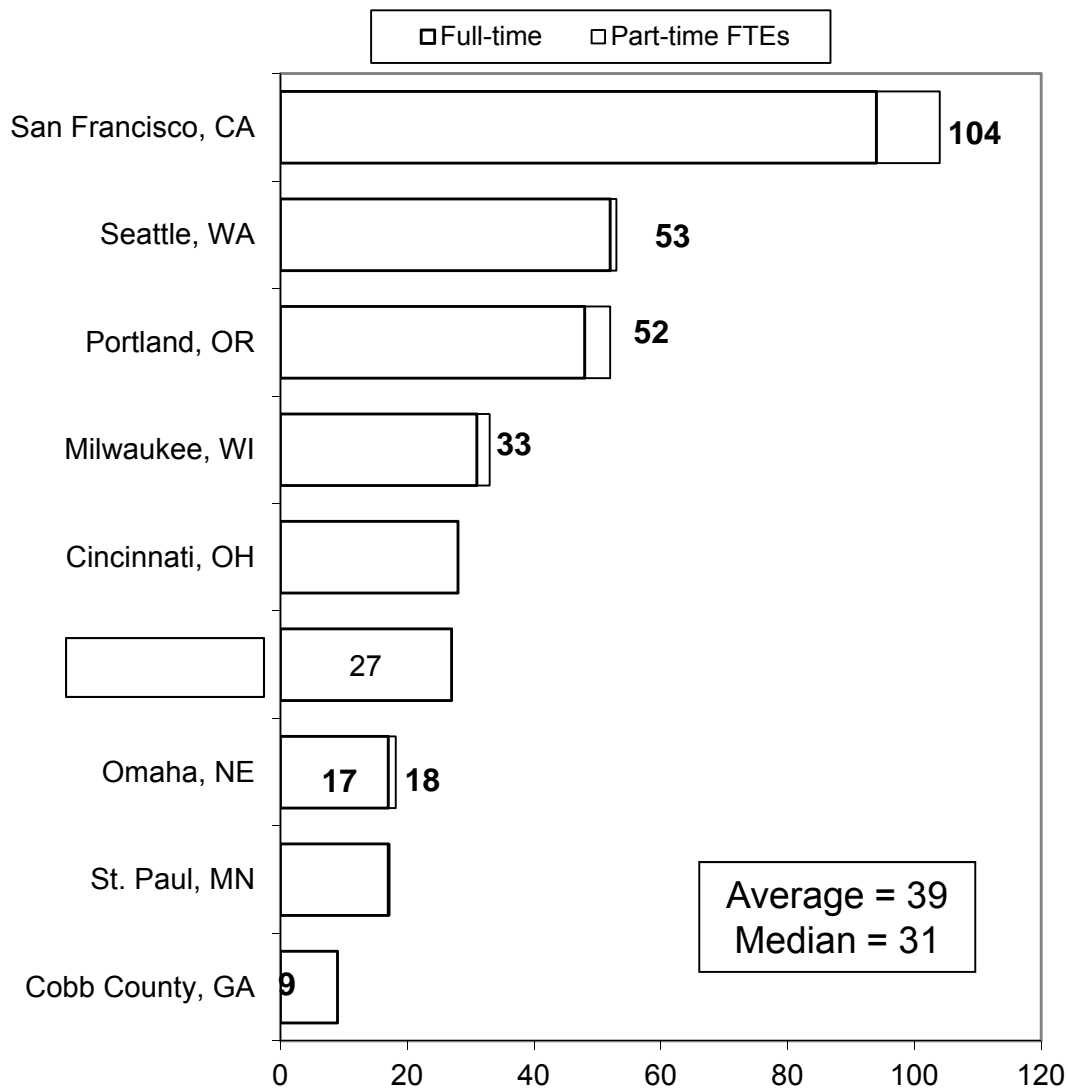
Comparison of DMO Budgets – Competitive and Comparable Markets



Note: Average and median calculations exclude San Jose CVB operations.
 Source Destination Marketing Association International CVB Organizational & Financial
 Profile, 2011; CSL International, 2012

TSJ currently allocates a relatively high proportion of overall DMO expenditures to personnel, including a fairly large sales staff. This emphasis on sales versus advertising is very appropriate given the nature of the San Jose destination. TSJ has a significant opportunity to influence convention business levels in the market, but much less so leisure/tourist travel given the nature of the market. Attracting conventions requires an aggressive sales staff versus print and electronic advertising.

Comparison of DMO Staffing Levels – Competitive and Comparable Markets

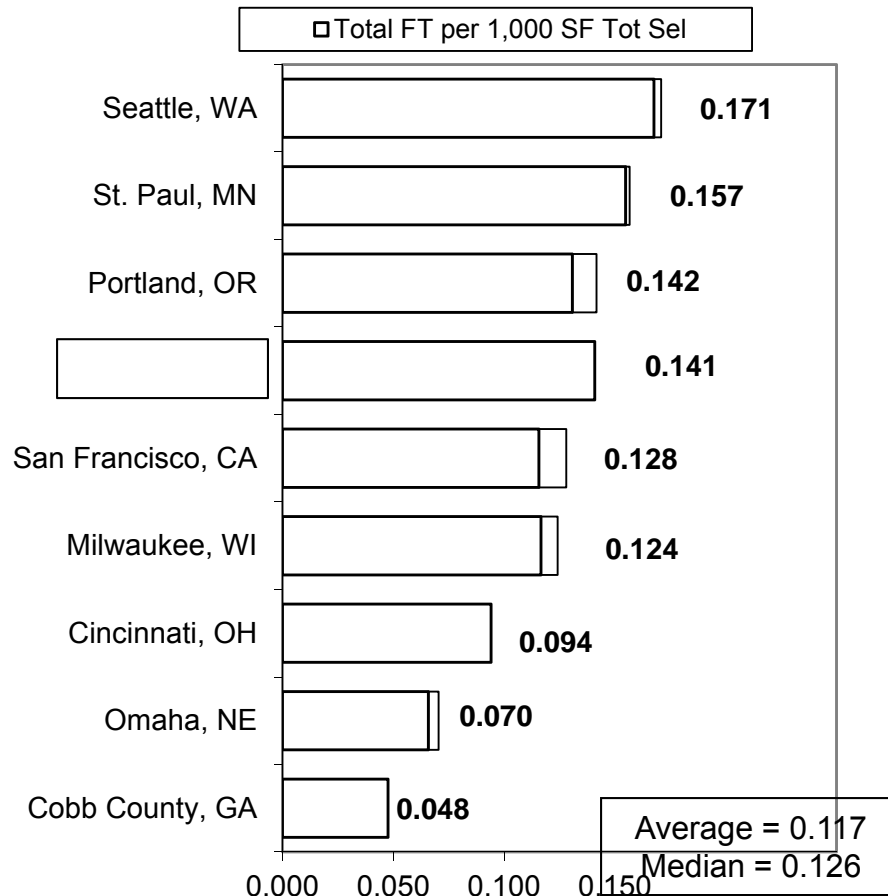


Note: Average and median calculations exclude San Jose CVB operations.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

The staffing levels for destination sales and marketing in San Jose (operated under TSJ) are slightly below the average and median for other markets reviewed. Excluding the significant staffing levels in San Francisco, the San Jose levels are much closer to average. As previously noted, the fact that the San Jose DMO is operated under TSJ may allow for a slightly lower staffing level without compromising the overall operation.

Comparison of DMO Staffing Levels per 1,000 Square Feet of Total Sellable Space – Competitive and Comparable Markets



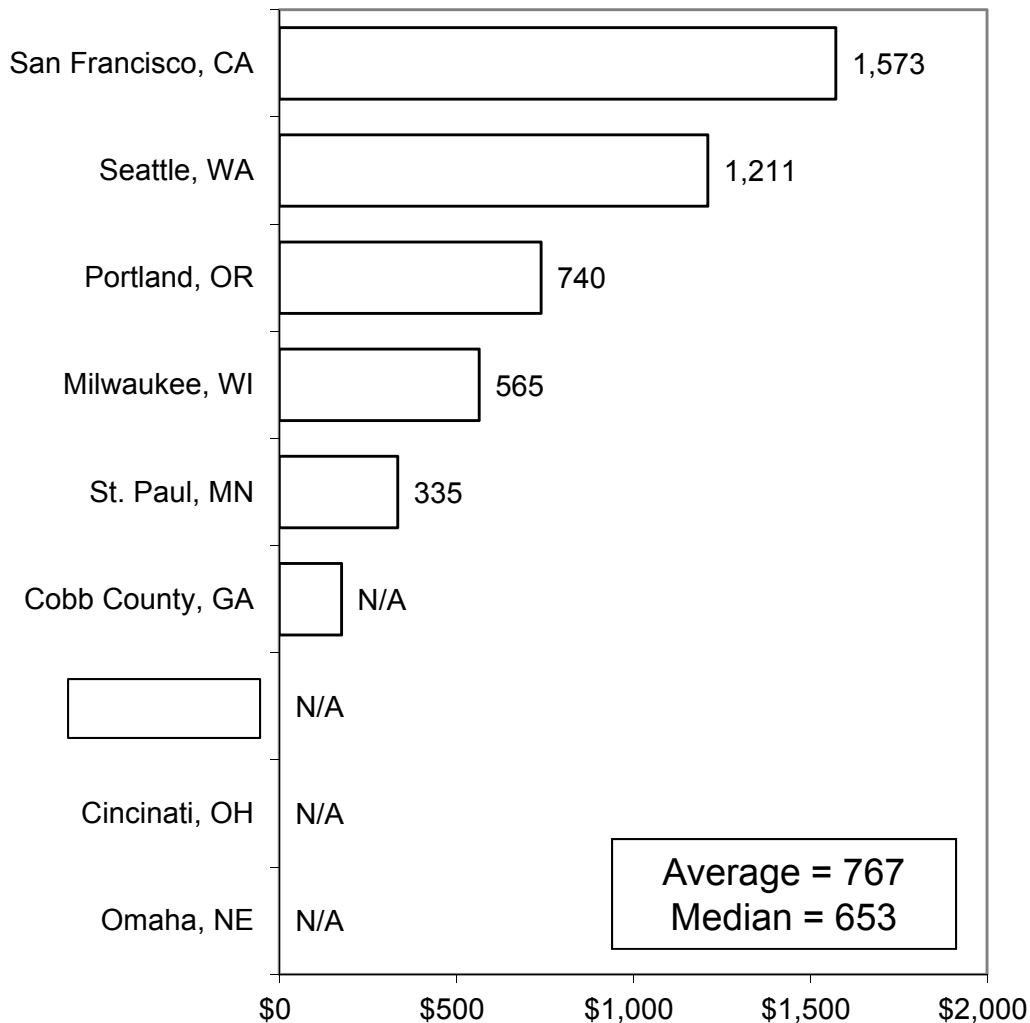
Note: Average and median calculations exclude San Jose CVB operations.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

We have calculated the total DMO budget per square foot of sellable convention center space at comparable and competitive markets reviewed. As noted above, the budget per square foot for DMO efforts in San Jose is slightly above the average of markets reviewed.

The on-going SJCC expansion project will reduce the DMO staffing per-square foot total to 0.108. The availability of the HBID revenue (as long as it continues) to be strategically allocated in conjunction with overall TSJ revenues is therefore very important to the success of the convention and destination sales efforts. Also, the likely increase in hotel tax collections as local market conditions improve will provide enhanced funding.

Comparison of Dues Paying Members – Competitive and Comparable Markets

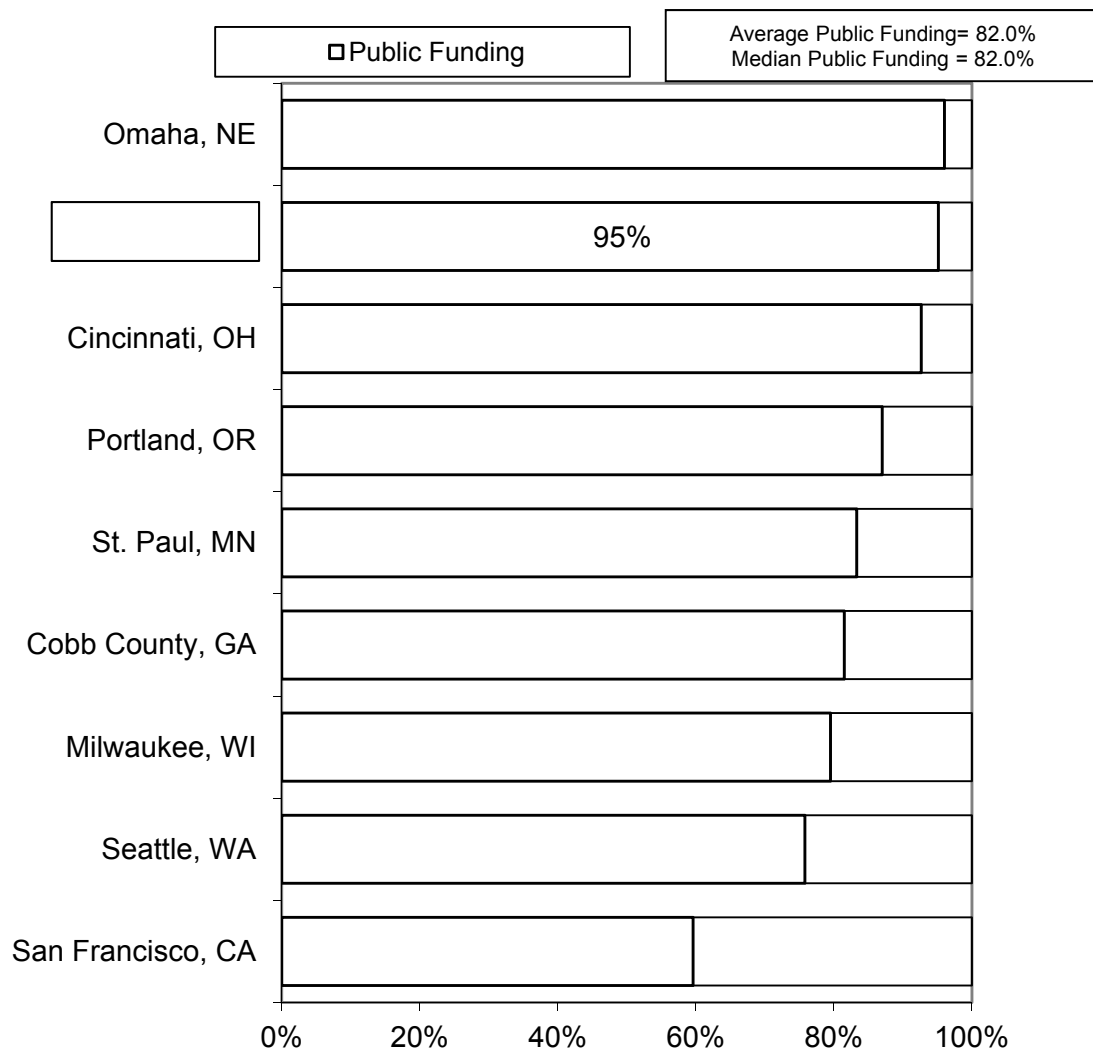


Note: Average and median calculations exclude San Jose CVB operations.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

Several DMO's operate with a membership system, collecting dues from local/regional members for services provided. While there may be a modest amount of net revenue generated through this approach, it can complicate sales and marketing efforts in that attractions, hotels or other assets that are not members are not typically included in promotional material. The approach used in San Jose is fully acceptable, and in our opinion should be continued.

Comparison of Public vs. Private Funding – Competitive and Comparable Markets



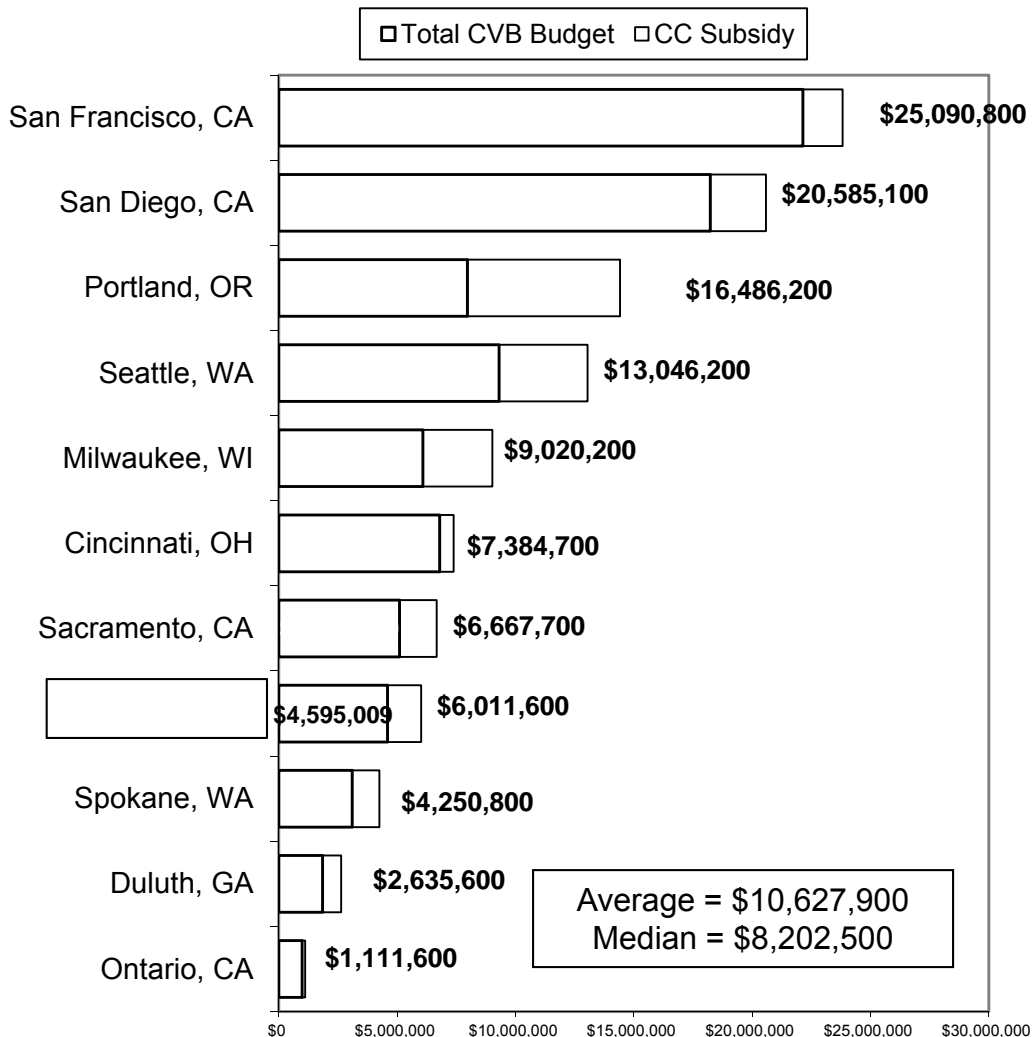
Note: Average and median calculations exclude San Jose CVB operations.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

The large majority of TSJ funding is generated through public sources. Some DMO's with significant membership levels generate larger shares of private revenue, however as noted previously, there are expenses associated with servicing a private membership base, and the net revenues are generally fairly limited. Other private revenue sources include in-kind contributions such as room nights or air access, co-op advertising and other such sources.

Comparison of Visitor Industry Investment

Comparison of Destination Investment – Competitive and Comparable Markets



Note: Average and median calculations exclude San Jose.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

The data presented above summarizes a measure of the cumulative investment made in selected communities in their convention and visitor industry. The investment considers the total CVB budget, as well as the convention center operating subsidy paid for by each municipality. As noted above, the cumulative investment made in San Jose is somewhat lower than comparable/competitive markets, as a result of both a somewhat lower CVB budget and a lower than average center operating subsidy.

Comparison of Destination Investment per Square Foot of Total Sellable Space – Competitive and Comparable Markets

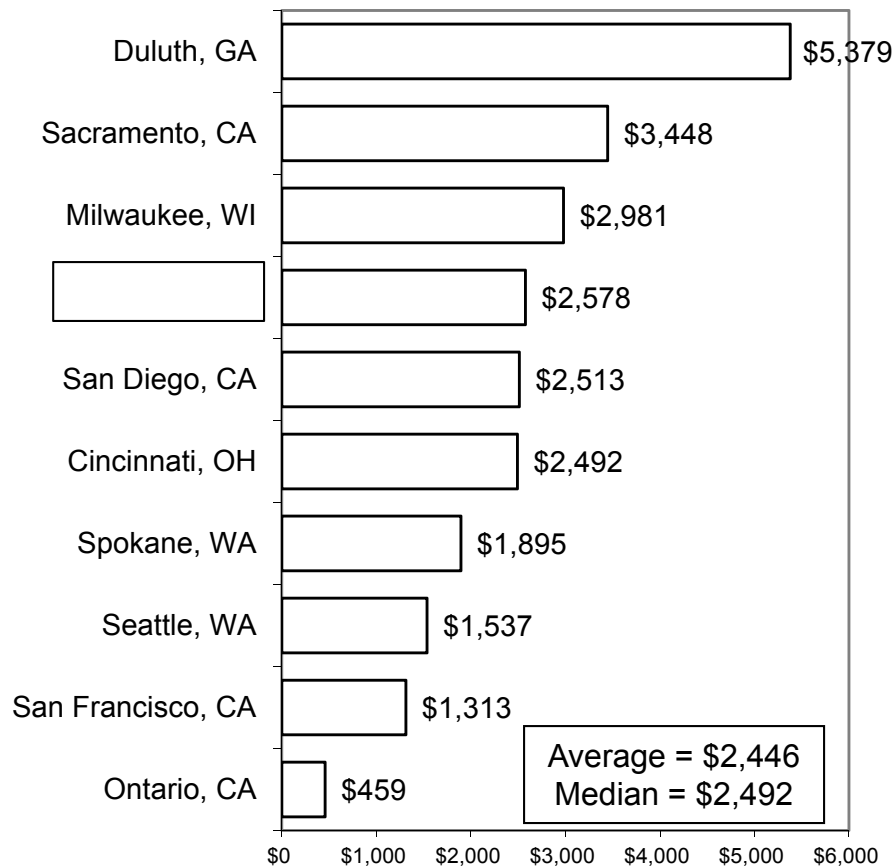


Note: Average and median calculations exclude San Jose.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

We have also analyzed destination investment in the convention and visitor industry on a per-square foot of sellable space basis. San Jose ranks very near the mid point with respect to this measure, suggesting an existing balance between facility size and cumulative sales, marketing and operational investment. Note that subsequent to the current expansion project, the cumulative industry investment per-square foot will decrease to \$23.96, assuming no future budget or subsidy changes. This may suggest that a modest increase in future TSJ expenditures would not be inconsistent with their operational responsibilities. Given expected growth in future hotel tax collections, the appropriate budgetary increases should materialize.

Comparison of Destination Investment per Hotel Room within ½ Mile of the Conv. Ctr. – Competitive and Comparable Markets



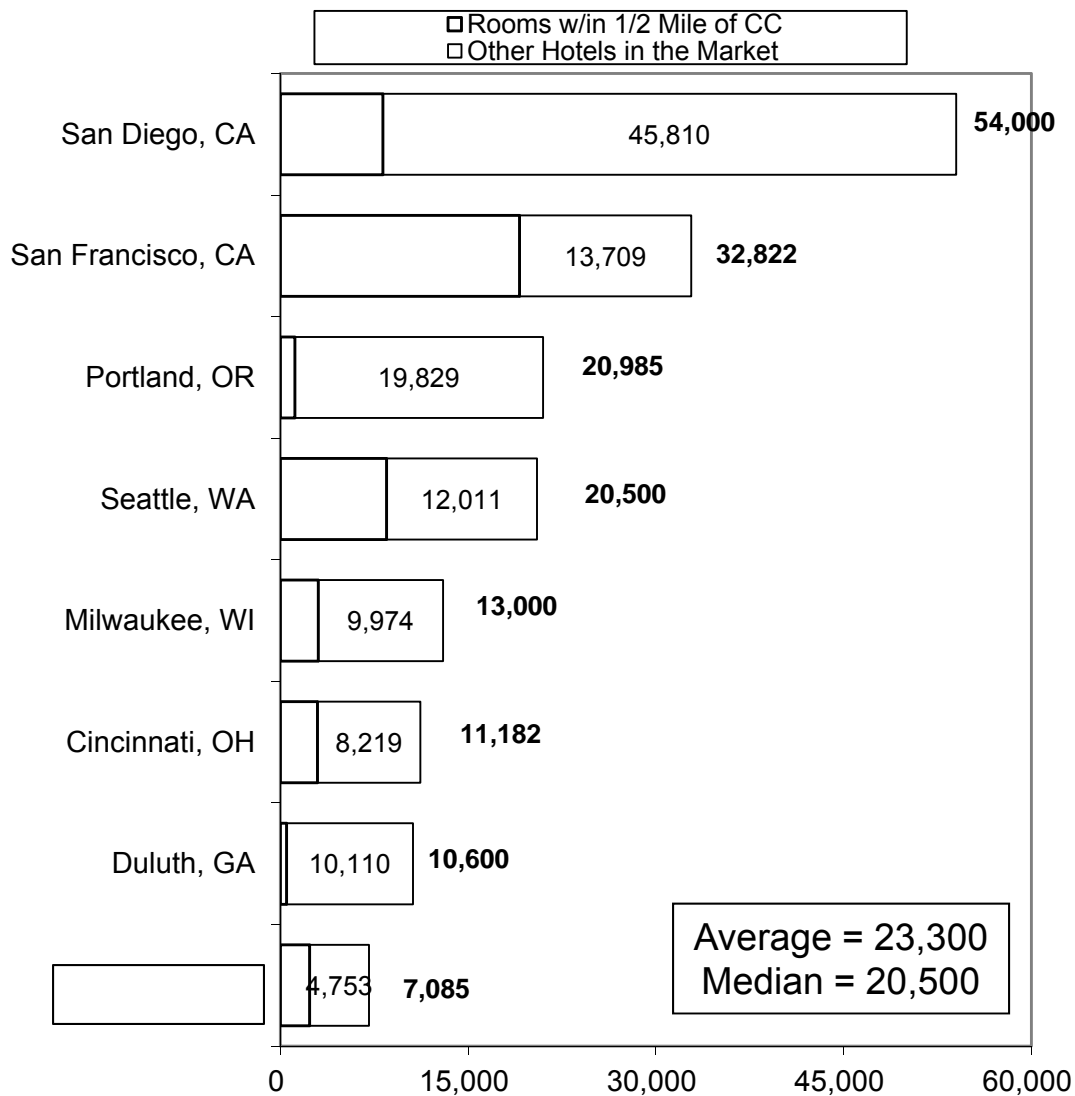
Note: Portland's average of \$14,261 destination investment per hotel room within one-half mile was removed from this comparison.

Note: Average and median calculations exclude San Jose.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

In measuring the relationship between destination investment and hotel rooms within ½ mile of the center, San Jose ranks slightly ahead of the mid-point. These data suggest that a reasonable balance currently exists between destination convention and visitor investment given the specific hospitality infrastructure in the market.

Comparison of Hotel Inventory – Competitive and Comparable Markets

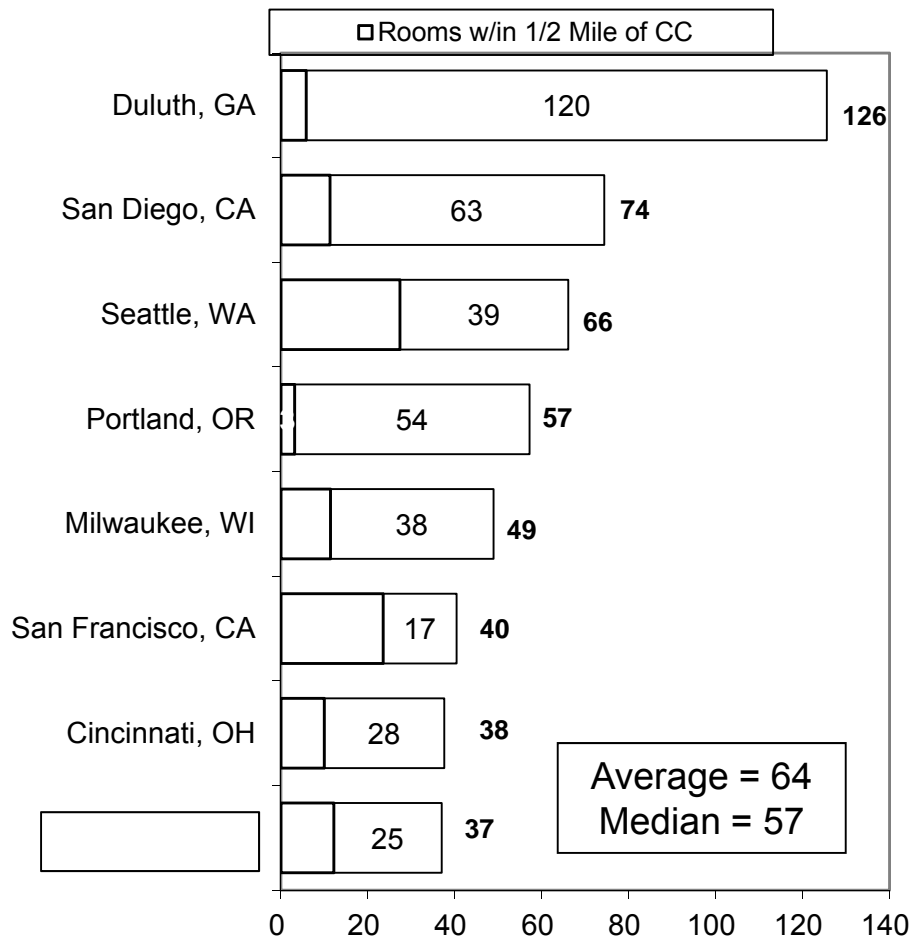


Note: Average and median calculations exclude San Jose.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

The hotel inventory in a market can significantly impact the ability to attract convention and trade events. The hotel inventory in San Jose ranks somewhat low relative to selected comparable/competitive markets. However, in terms of rooms within ½ mile of the center, San Jose ranks similar to most markets with the exception of San Diego, San Francisco and Seattle. This proximate room inventory is the more important of the two statistics when attracting conventions.

Comparison of Hotel Inventory per 1,000 Square Feet of Total Sellable Space – Competitive and Comparable Markets




Note: Average and median calculations exclude San Jose.

Source Destination Marketing Association International CVB Organizational & Financial Profile, 2011; CSL International, 2012

In measuring the relationship between hotel inventory and convention center sellable space, the SJCC ranks towards the mid-point in terms of rooms within ½ mile of the center. However, the total rooms within the market rank last on a per-sellable space basis.

Given that planners are more interested in room inventory near the center, we do not believe that the current San Jose hotel room situation represents a major competitive disadvantage.



Benefits/Challenges of Managing Multiple Facilities/Enterprises

Team San Jose is a partnership consolidating operations of the:



– San Jose Convention Center



– Montgomery Theater



– San Jose Convention and Visitors Bureau



– Parkside Hall



– California Theater



– San Jose Civic



– Center for the Performing Arts



– South Hall

Other markets that have consolidated operations of multiple facilities and/or enterprises include:

- **Boston, Massachusetts**
 - Boston Convention and Exhibition Center
 - Hynes Convention Center
 - Massmutual Center
- **Duluth, Georgia**
 - Gwinnett Convention Center
 - Gwinnett County Convention and Visitors Bureau
 - Performing Arts Center
 - The Arena
 - Hudgens Center for the Arts
- **Long Beach, California**
 - Long Beach Convention Center
 - Terrace Theater
 - Center Theater
 - Long Beach Arena
- **Milwaukee, Wisconsin**
 - Frontier Airlines Center
 - Milwaukee Theatre
 - U.S. Cellular Arena
- **Ontario, California**
 - Ontario Convention Center
 - Ontario Convention and Visitors Bureau
- **Sacramento, California**
 - Sacramento Convention Center
 - Community Center Theater
 - Memorial Auditorium
 - Jean Runyon Little Theater
- **Spokane, Washington**
 - Spokane Convention Center
 - Spokane Veterans Memorial Arena
 - INB Performing Arts Center
- **San Diego, California**
 - San Diego Convention Center
 - San Diego Civic Theater
- **St. Paul, Minnesota**
 - St. Paul RiverCentre
 - Xcel Energy Center
 - Roy Wilkins Auditorium

Benefits of Managing Multiple Facilities/Enterprises

- Added flexibility with different types of event space
 - Greater opportunity to attract larger groups and concurrent events
 - Space to host keynote speakers and general sessions can be held in fixed-seating venues
- Ability to coordinate ingress/egress of event attendees
- Economies of scale with staffing
 - Janitorial, maintenance and other event staff can be utilized more efficiently and with less downtime between events as non-local events are generally held during the week and local events are held on the weekends
 - Upper level management and administrative staffing such as finance, human resources and payroll.
- Unified goals among convention center, CVB and other event space sales staff encourages events to be placed in the appropriate venue with less intra-market competition
- Single point of contact simplifies booking process for event planners
- Simplifies the hiring of labor and other services providers such as food and beverage
- Improved exposure of the benefits of having a public assembly/convention facility to local residents

Challenges of Managing Multiple Facilities/Enterprises

- Temptation to give booking priority to promoted shows and/or other events that generate a greater return-on-investment for facility operations and less of an economic impact (can be overcome with coordinated CVB operations).
- Potential for perception that CVB does not provide adequate attention to promoting other venues (not under their control) within the market.

Provision of Facility Services

Provision of Facility Services – Food and Beverage

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center		√			Facility retains 25 to 32 percent of F&B revenue depending on gross accumulative sales
Gwinnett Center		√			Facility retains 30 to 40 percent of F&B revenue depending on gross accumulative sales
Long Beach Convention and Entertainment Center		√			Facility retains 15 percent of catering revenue, 40 percent of alcohol sales and 40 percent of concession revenue.
Frontier Airlines Center		√			Facility retains 30 to 40 percent of F&B revenue depending on gross accumulative sales - contracted with Levy Restaurants
Ontario Convention Center	√				In-house food service provided by SAVOR, a subsidiary of SMG.
Oregon Convention Center		√			Facility contracts with ARAMARK. Revenue split not available
Moscone Center		√			Facility retains 25 percent of F&B revenue and requires minimum purchases.
Spokane Convention Center		√			Revenue split not available.
San Jose Convention Center	√				Average SJCC F&B profit was 24 percent under exclusive vendor agreement; profit has increased to approximately 28 percent annually now that is has been brought in-house.

- On average, facilities retain between 25 and 30 percent of gross food and beverage revenue.
- The only other facility offering in-house food and beverage service is operated by private management firm SMG, with their subsidiary SAVOR providing the food and beverage service.
- SJCC received 24 percent profit share from their past vendor because F&B does not typically generate a strong margin in theatres. This percentage was inclusive of retail.

Provision of Services - Telecommunications and Internet

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center		√			Facility retains 36 percent of telecomm revenues.
Gwinnett Center	√				
Long Beach Convention and Entertainment Center		√			Facility retains 35 percent of revenue.
Frontier Airlines Center	√				
Ontario Convention Center	√				
Oregon Convention Center	√				
Moscone Center		√			Facility retains 22 percent of telecomm revenues.
Spokane Convention Center	√				
San Jose Convention Center		√			Facility retains 20 percent on the first \$300K, 32 percent on \$300K-\$555K and 45 percent after \$555K

- Five of the eight facilities reviewed provide in-house telecomm services.
- The two of the three facilities that utilize an exclusive vendor retain between 35 and 36 percent of telecommunications revenues, respectively.
- In order to accommodate increasing demand for free Wi-Fi access, some facilities are beginning to offer low-bandwidth access for free (sometimes limited to common areas), with improved speed available for a fee
- Industry trends with respect to Internet access favor free wireless in public areas at a relatively low bandwidth, with charges to the exhibitor and/or show manager for higher bandwidth availability on the show floor and other areas. Wired access continues to be provided on a fee-based system. These trends should be carefully monitored to ensure SJCC policies remain current.
- Discussions with the vendor should continue to take place to evaluate opportunities to introduce these emerging trends into the SJCC.

Provision of Services – Audiovisual

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center			√		Facility retains 36 percent of AV revenues
Gwinnett Center		√			Facility retention percentage not available
Long Beach Convention and Entertainment Center			√		Fixed guarantee of \$250,000 retained by facility.
Frontier Airlines Center			√	√	Facility retains 25 percent of AV revenues from preferred vendor, nothing from outside AV providers
Ontario Convention Center	√			√	Facility maintains a limited supply of in-house AV equipment; facility retains no revenue from outside AV provider
Oregon Convention Center	√			√	Facility maintains a limited supply of in-house AV equipment; facility retains no revenue from outside AV provider
Moscone Center			√		Facility retains 20 to 40 percent of AV revenues based on discount given to client.
Spokane Convention Center	√				
San Jose Convention Center			√		Facility retains between 20 and 44 percent depending on the amount of discount required to win the business.

- AV service is provided in a variety of ways and revenues retained also vary greatly.
- Facilities often find it difficult to keep up with ongoing changes in technology, making it more cost effective to maintain a limited inventory of equipment (if any) and allowing for outside vendors to provide the services necessary.
- There may be an opportunity for the SJCC to provide basic A/V equipment at a relatively high mark-up in order to help increase other revenue levels.

Provision of Services – Electrical

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center	√				
Gwinnett Center	√				
Long Beach Convention and Entertainment Center				√	Facility retains 30 percent of electrical revenue.
Frontier Airlines Center	√				
Ontario Convention Center	√				
Oregon Convention Center	√				
Moscone Center				√	Facility retains 25 percent of electrical revenue.
Spokane Convention Center	√				
San Jose Convention Center			√	√	Facility retains 40 percent of revenue from preferred provider and 30 percent from other providers; some services also handled in-house.

- Six of eight facilities reviewed provide in-house electrical services.
- San Jose's retention rate of electrical revenue is greater than that of the other two facilities that outsource their electrical services.
- Consideration should be given to auditing the billing data under the current contract to ensure full compliance.

Provision of Services – Decoration

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center	√			√	Event set-up and tear down is exclusive in-house; open for other decorating needs.
Gwinnett Center	√			√	
Long Beach Convention and Entertainment Center				√	Facility retains no revenue
Frontier Airlines Center				√	Facility retains no revenue
Ontario Convention Center	√			√	Event set-up and tear down is exclusive in-house; open for other decorating needs.
Oregon Convention Center				√	Facility retains no revenue
Moscone Center				√	Facility retains no revenue
Spokane Convention Center			√		Facility retains no revenue
San Jose Convention Center				√	Facility retains no revenue

- Only three of the facilities reviewed offer any decorating service in-house and/or retain any decoration revenue.
- Providing some level of pipe and drape or other decorating supplies can generate a modest amount of added revenue, however this equipment can require significant storage space that is not often available within most centers.

Provision of Services – Security

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center	√		√		Exclusive in-house for perimeter security; in-house preferred, but open for event space specific security. No revenue split to facility.
Gwinnett Center	√				
Long Beach Convention and Entertainment Center	√	√			In-house building security; event security is provided by an exclusive vendor
Frontier Airlines Center	√			√	Some in-house security available; outside security is open, so long as they meet minimum requirements. No revenue split to facility.
Ontario Convention Center	√			√	Exclusive in-house for perimeter security; in-house preferred, but open for event space specific security. No revenue split to facility.
Oregon Convention Center	√		√		In-house building security; client hires off an approved list for event security. No revenue split to facility.
Moscone Center				√	Facility retains no revenue
Spokane Convention Center		√			Revenue split not available.
San Jose Convention Center				√	Facility retains no revenue

- Six of the facilities reviewed offer at least some measure of in-house security; most commonly perimeter or building security, with event security provided by an outside vendor and no revenue retained by the facility.
- TSJ management indicates that some level of base building security will soon be provided at the SJCC. This will reduce contract labor costs with a corresponding increase in salaries, provide an opportunity to charge a portion of event related security costs to the customer, and provide greater management control of an important building function.

Provision of Services – Janitorial and Maintenance

Facility	In house	Exclusive	Preferred	Open	Notes
Duke Energy Center	√				
Gwinnett Center	√				
Long Beach Convention and Entertainment Center	√			√	Facility staff in-house, janitorial/clean-up services for an event are open
Frontier Airlines Center	√				
Ontario Convention Center	√				
Oregon Convention Center	√				
Moscone Center				√	Facility retains 20 percent of janitorial revenues.
Spokane Convention Center		√			Revenue split not available.
San Jose Convention Center	√			√	Booth cleaning handled by outside provider, facility retains no revenue; Center cleaning handled in-house and not charged to event.

- The majority of facilities analyzed provide janitorial and maintenance services in-house with service charges included as a portion of facility rental rates.
- The SJCC provides these services with in-house labor, as well as through private vendors.

Comparable Authority Sources of Funding

Projection of TSJ Sources of and Uses of Operating Revenues

Historical and budgeted financial data for TSJ is summarized below.

	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>
Total TOT Collections - CCF (3.0%)	\$5,017,865	\$6,406,211	\$6,281,864	\$6,470,320
Total TOT Collections - CVB (1.5%)	2,721,065	2,984,423	3,350,000	3,450,500
General Fund transfer - CVB	1,075,452	554,369	-	-
Other CVB Revenues	360,858	784,568	950,000	950,000
Operating Revenue - CCF	18,660,254	18,027,978	11,528,827	18,481,650
Other Operating Revenue - CCF	61,051	15,000	10,015,000	15,000
Net Parking Revenue	450,000	-	-	-
Total Revenue	\$28,346,545	\$28,772,549	\$32,125,691	\$29,367,470
Operating Expenses - CCF	20,000,436	21,404,787	16,374,756	20,840,631
Other Expenditures - CCF	1,771,670	2,790,964	12,730,000	2,380,000
CVB Expenditures	4,157,375	4,135,360	3,800,000	3,900,500
Total Expenses	\$25,929,481	\$28,331,111	\$32,904,756	\$27,121,131
Net Operating Profit/Loss	\$2,417,064	\$441,438	(\$779,065)	\$2,246,339

Fund 536 revenue and expenditure estimates are budgeted via City Council.

City financial support of CVB operations has decreased in recent years. As of FY 2012-13, the City will no longer be supporting CVB operations.

Includes a proposed \$10.0 million loan for the remodel of the kitchen and HVAC work

Source: Team San Jose Management, 2012

Sources of funding for markets in which an authority operates the primary convention facility

- **Team San Jose** (*San Jose, CA*)
 - City of San Jose collects 10.0 percent hotel/motel tax, 3.0 percent is allocated to CCF operations and 1.5 percent allocated to CVB operations.
 - TSJ must request funds and account for expenses through a public budgeting process with the City Council.
 - City transfer of funds to support CVB operations diminished in recent years and will be discontinued by fiscal year 2012-13
 - A separate Hbid is approved annually by the hotel industry, and used to support event bid fees and destination sales and marketing efforts. Room fees range from \$2.00 to \$0.75, depending on proximity to the SJCC.
- **Wisconsin Center District** (*Milwaukee, WI*)
 - Facilities must cash flow on an annual basis.
 - Sales taxes levied on hotel rooms, prepared foods and beverages and car rentals within Milwaukee County:
 - Two and a half percent on hotel rooms
 - Three percent on car rentals
 - One-half percent on food and beverage sales
 - Seven percent hotel tax collected by the City of Milwaukee.
 - Primary use of funds is to repay \$185 million debt for construction of Frontier Airlines Center (now Delta Airlines Center), secondary use is for Visit Milwaukee funding, remainder designated for capital improvement funds; all funds depleted annually.
- **Metropolitan Entertainment and Convention Authority** (*Omaha, NE*)
 - Self sustaining organization generating annual profits of \$1.5 to \$2.0 million annually.
 - MECA was to receive \$2.0 million annual subsidy from City for first 13 years of existence; ended practice five years early.
 - City general funds are fall back for funding operations.

Sources of funding for markets in which an authority operates the primary convention facility

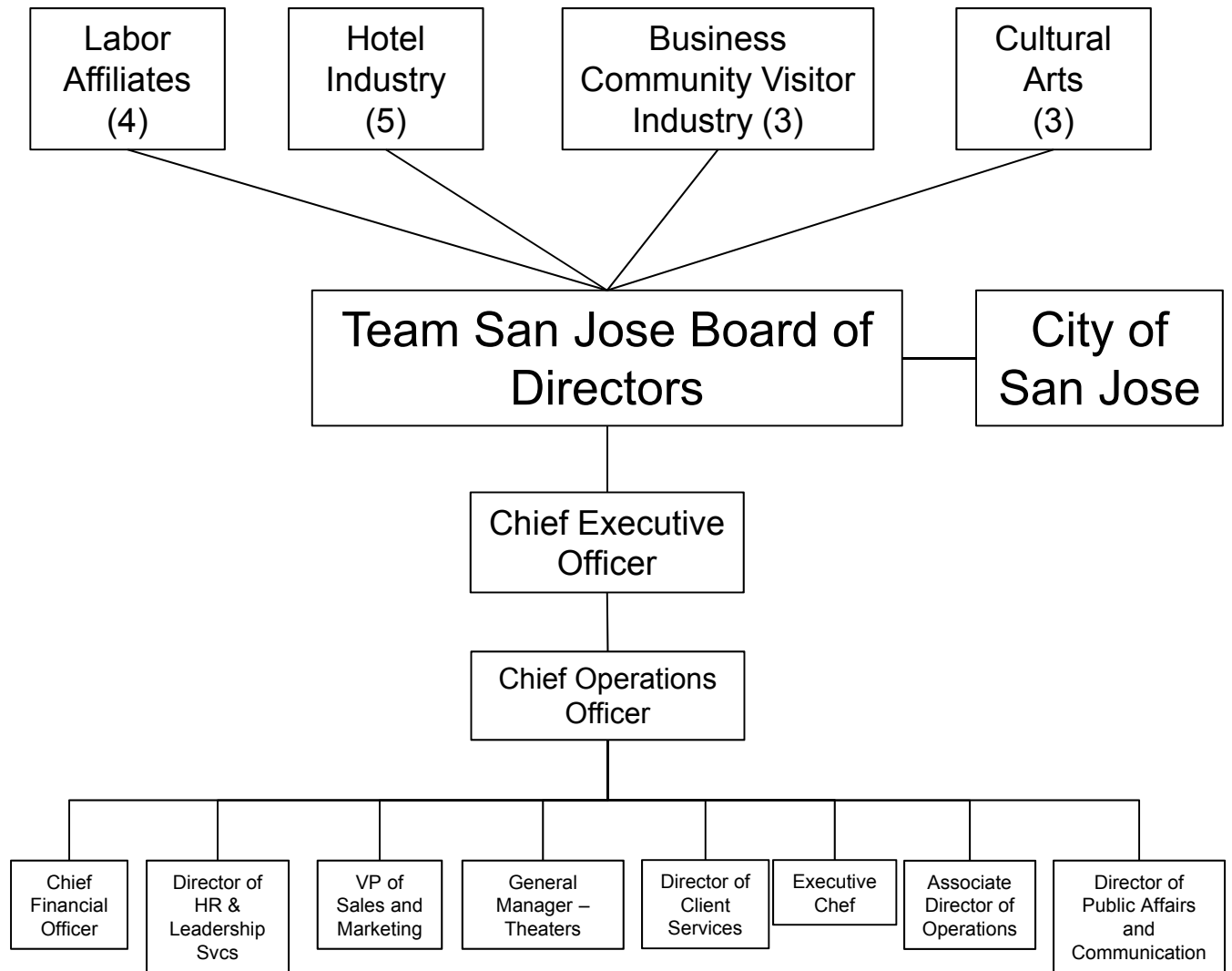
- Metropolitan Entertainment and Recreation Commission (*Portland, OR*)
 - Portland Expo Center facility operates at an annual profit; however, Oregon Convention Center and Portland Center for the Performing Arts operate at an annual deficit that exceeds the profits of the PEC.
 - Multnomah County collects 12.5 percent TOT; 3.0 percent allocated to MERC, 1.0 percent allocated to Travel Portland and 2.5 percent allocated to Visitor Development Fund (VDF).
 - Multnomah County also collects 17.0 percent car rental tax, 2.5 percent allocated to VDF.
 - A specific portion of the VDF is allocated to MERC operations
 - City of Portland also contributes a set amount (\$784,000 budgeted for 2012, and increased annually based on CPI) to offset operations of the Center for the Performing Arts.
- San Diego Convention Center Corporation (*San Diego, CA*)
 - 85-90 percent self-sufficient.
 - Receive a \$3.4 million transfer in from the City that is negotiated annually.
 - Previous subsidy was as much as \$4.5 million annually.
 - Transfer amount is based on funds available to the City and are largely at the City's discretion.
 - Can only use City funds for capital improvements or marketing/promotional expenses.
- Washington State Convention Center Public Facilities District (*Seattle, WA*)
 - Self sustaining organization and must cash flow on an annual basis.
 - Operations subsidized by approximately \$3.8 million in parking revenues collected.
 - Collect two percent hotel/motel tax; however, these funds are utilized for CVB operations and debt service.

Authority Oversight and Staffing Comparisons

Typical Measures of Operational Oversight

- Municipal Council Oversight – Set broad priorities as part of the contract; approve budget; direct the contract administrator in evaluating performance relative to goals; potentially serve on Board of Directors.
- Municipal Staff Oversight – Collaborate with Authority to set specific goals, develop/approve sales and marketing plans and evaluate performance relative to goals; recommend changes to contract, plans and/or procedures as determined necessary to meet City Council priorities
- Contract Oversight – Contractual provisions that allow for Contract Administrator to take necessary actions relative to deficiencies in performance of contractual obligations.

Team San Jose – Governance



Team San Jose Governance

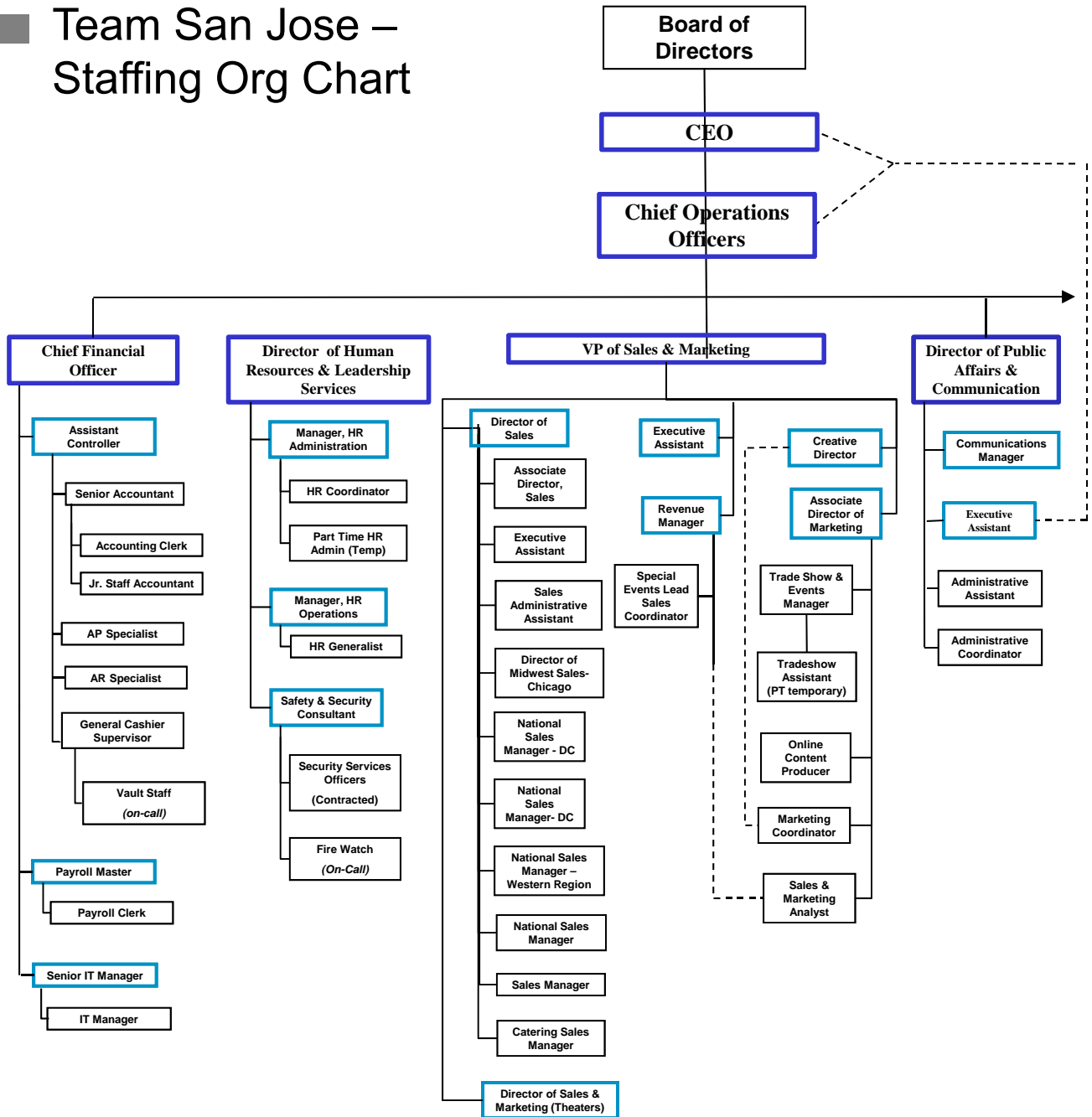
Team San Jose

- City of San Jose collects 10.0 percent hotel/motel tax, 3.0 percent is allocated to CCF operations and 1.5 percent allocated to CVB operations.
- TSJ must request funds and account for expenses through a public budgeting process with the City Council.
- City transfer of funds to support CVB operations diminished in recent years and will be discontinued by fiscal year 2012-13.

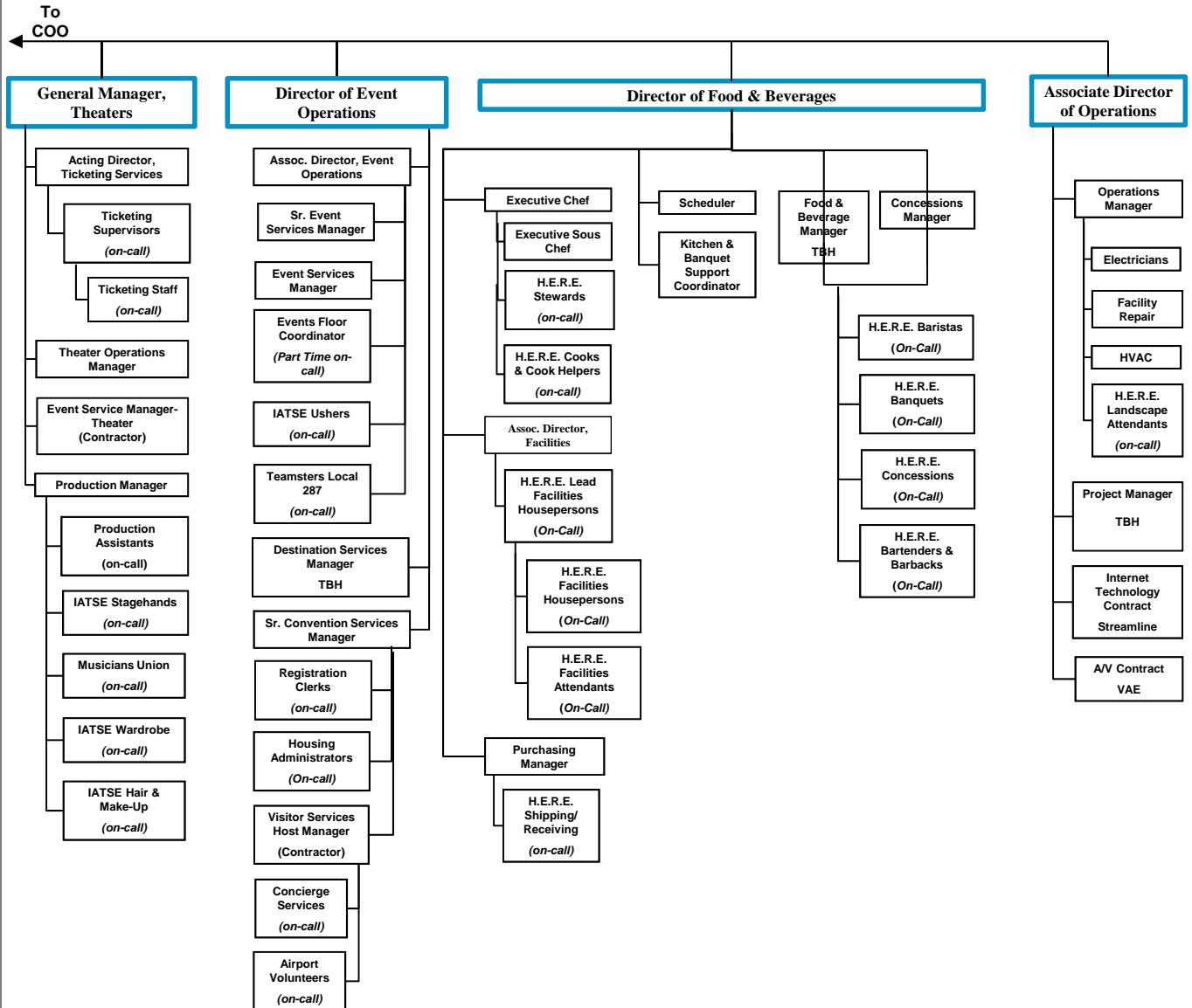
Board of Directors

- Fifteen member board; four from labor affiliates (three of whom represent unions with labor at any of the facilities managed by TSJ), five from the hotel industry (three of whom represent specific downtown San Jose hotels), three from San Jose's business community that provide services or products within the visitor industry, and three from San Jose cultural arts affiliates.
- Two representatives from the city serve as non-voting members, one council representative and one city manager representative.
- Nominee Approval Committee made up of members of one of the four groups outlined above nominate candidates for vacant or to be vacant positions. Nominees must receive a majority vote of the full Board to be elected.
- Members serve two-year terms and are not limited as to the number of terms served.
- Regular meetings held monthly.
- Committees include: Audit, Finance, Operations, Personnel/Compensation, and Sales and Marketing and consist of not less than two members of the Board.
- A quorum is present with nine Directors present; actions may be taken with a majority vote from the minimum quorum (i.e., if nine Directors are present, action can be taken with five votes in favor of the action).

Team San Jose – Staffing Org Chart



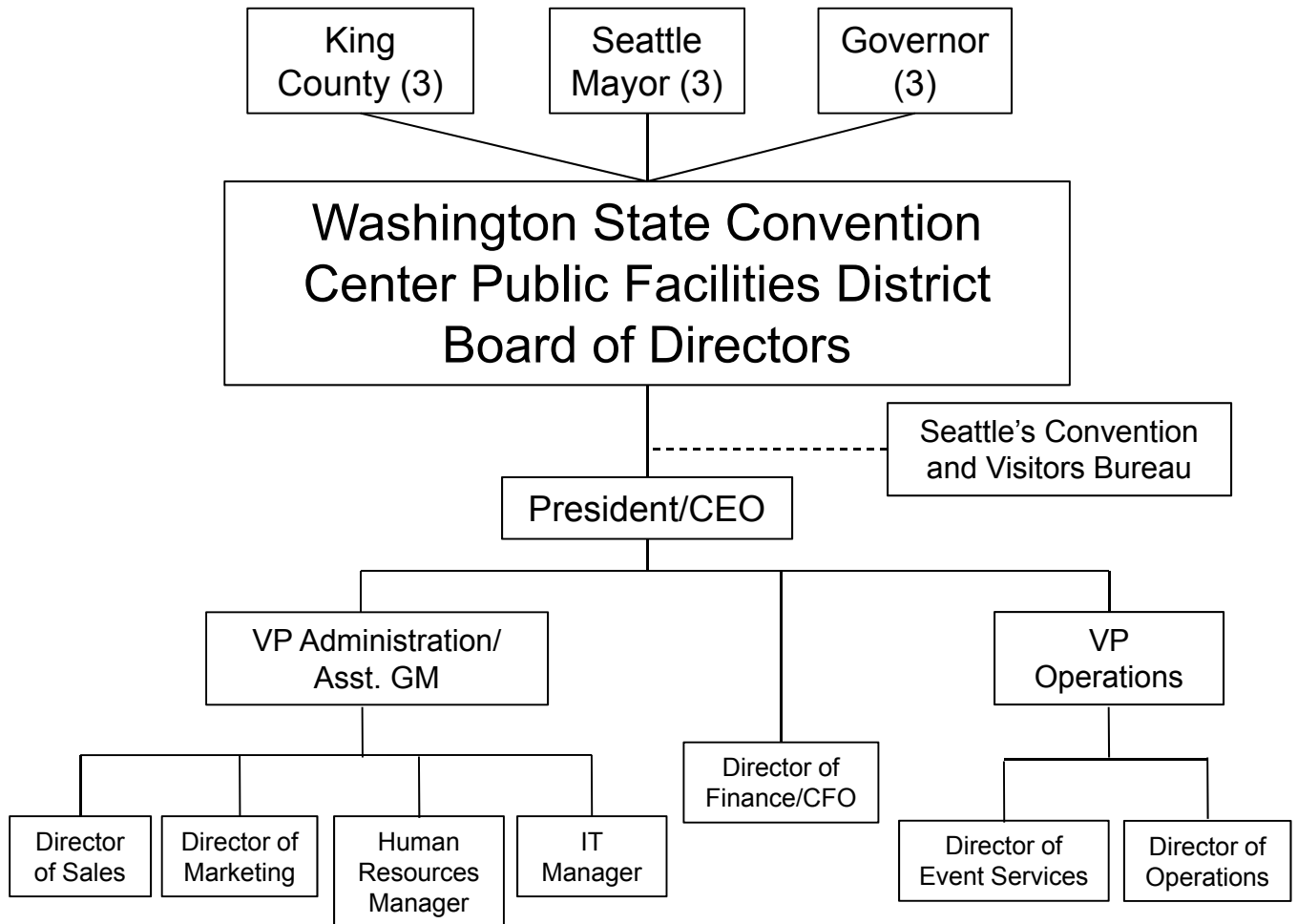
Team San Jose – Staffing Org Chart



Team San Jose – Staffing

<u>TOTAL EMPLOYEES:</u>	<u>180</u>
Full-time Staff (Exempt):	69
Variable Labor (Non-Exempt):	806
Hours Worked Variable Labor:	<u>202,540</u>
FTE for Variable Labor:	97
Shared City Employees:	14

Washington State Convention Center – Governance and Oversight



Washington State Convention Center – Governance and Oversight

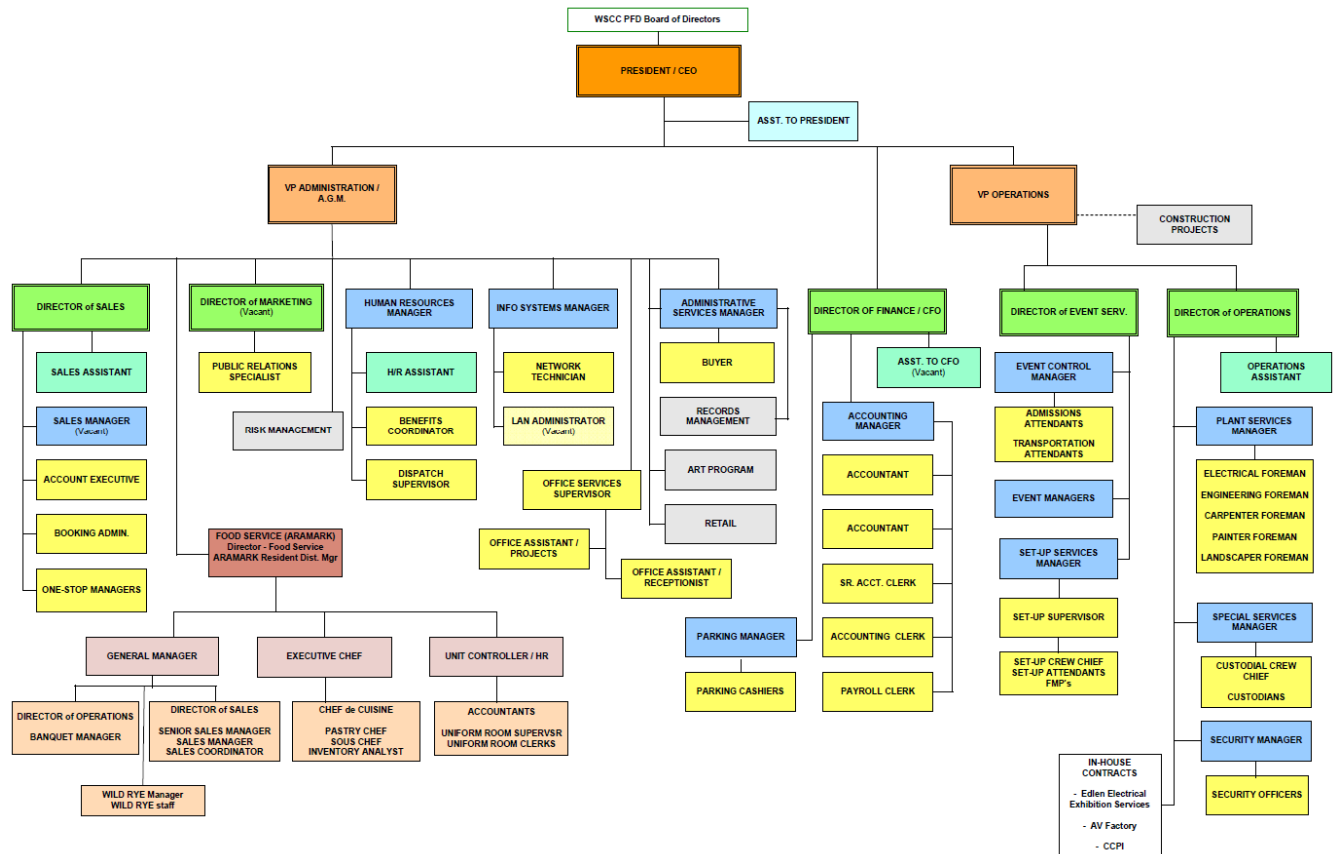
Washington State Convention Center Public Facilities District

- Self sustaining organization and must cash flow on an annual basis.
- Operations subsidized by approximately \$3.8 million in parking revenues collected.
- Collect two percent hotel/motel tax; however, these funds are utilized for CVB operations and debt service.

Board of Directors

- Original nine member board appointed by Governor to serve two-year or four-year terms.
- Upon completion of the initial term, future Board members will consist of three nominated by the King County Executive, three from the City Mayor and three from the Governor.
- One representative appointed by the County and one by the Governor must represent the lodging industry within the Public Facilities District, and one appointed by the City must represent organized labor.
- Chairperson, Vice Chair and seven voting members.
- Designate committees lead by members of the BoD to head-up various efforts. Committees include: finance, legal, administrative, marketing, benefits, facility, etc.
- Meet every other month out of the year.

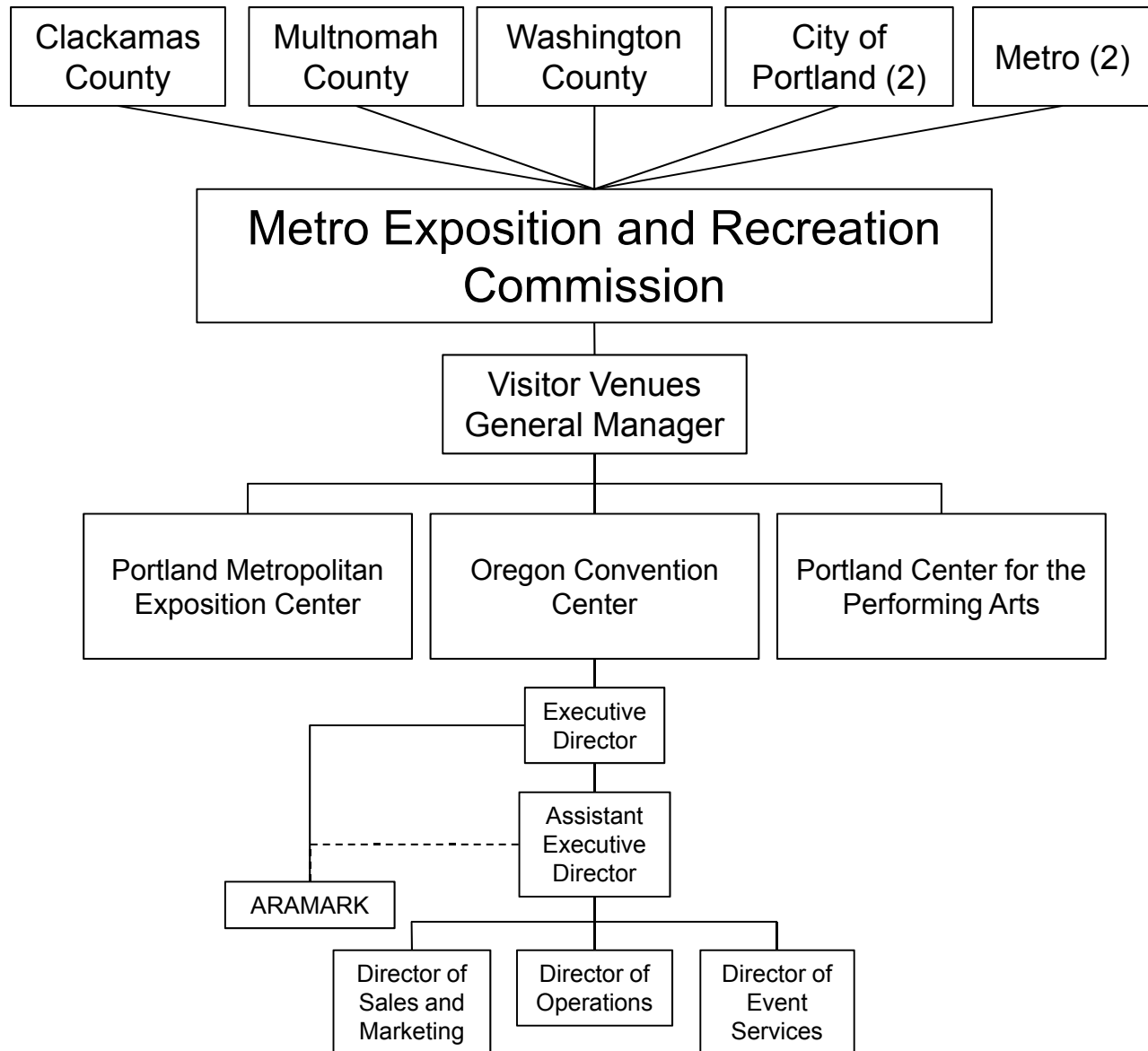
Washington State Convention Center – Staffing Org Chart



Washington State Convention Center – Staffing

<u>TOTAL EMPLOYEES:</u>		<u>212</u>
Full-time Non-Union:		43
Full-time Union:		70
Parking	4	
Event Control	1	
Set-up	14	
Security	16	
Custodial	23	
Plant Services	12	
On-Call & Part Time		99
Parking	5	
Event Control	57	
Set-up/FMP	34	
Security	2	
Custodial	1	

Oregon Convention Center – Governance and Oversight



Oregon Convention Center – Governance and Oversight

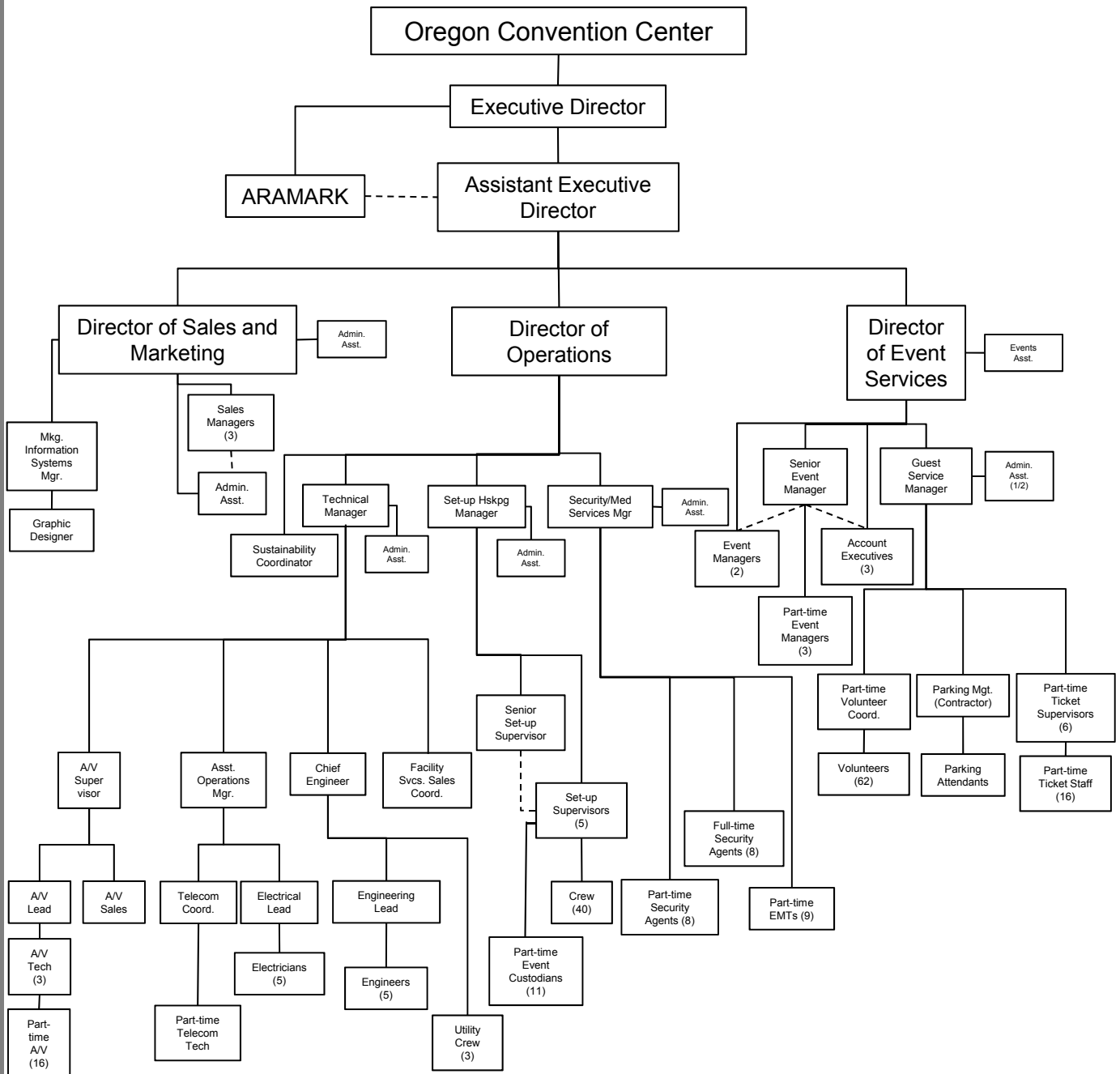
Metro Exposition and Recreation Commission

- Portland Expo Center facility operates at an annual profit; however, Oregon Convention Center and Portland Center for the Performing Arts operate at an annual deficit that exceeds the profits of the PEC.
- Multnomah County collects 12.5 percent TOT; 3.0 percent allocated to MERC, 1.0 percent allocated to Travel Portland and 2.5 percent allocated to Visitor Development Fund (VDF).
- Multnomah County also collects 17.0 percent car rental tax, 2.5 percent allocated to VDF.
- A specific portion of the VDF is allocated to MERC operations.
- City of Portland also contributes a set amount (\$784,000 budgeted for 2012, and increased annually based on CPI) to offset operations of the Center for the Performing Arts.

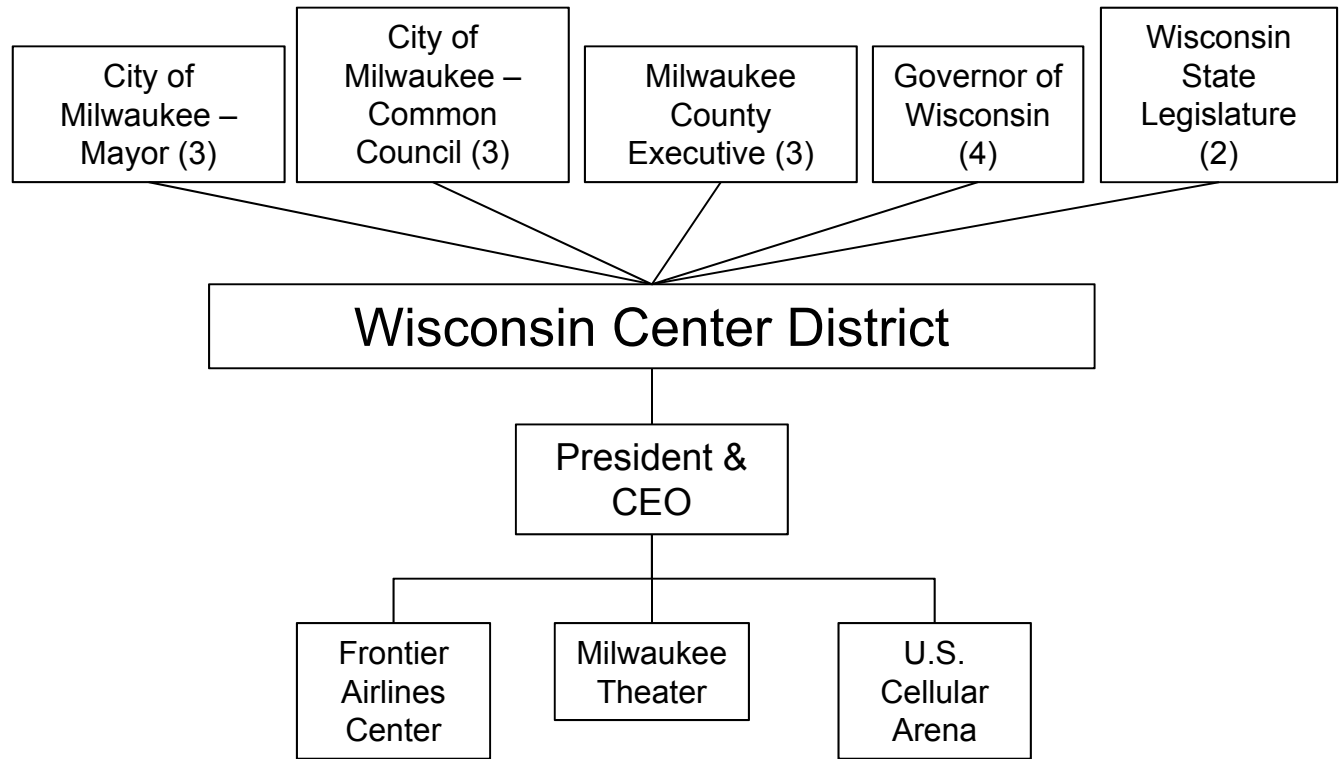
Commission

- Seven board members appointed by the Metro Council upon recommendation from local area governments. Clackamas, Multnomah and Washington counties recommend one member each, City of Portland recommends two members and two recommended by Metro.
- Members serve a four-year term and may be re-appointed.
- Hold monthly meetings.
- Four votes required to enact any resolution.
- Committees appointed by Chair and approved by Commission; a Commission member acts as Chair of the committee, but other appointments not limited to members of the Commission.
- Chair assigns liaisons to each facility responsible for meeting with facility directors and providing feedback to the Commission.

Oregon Convention Center – Staffing Org Chart



Wisconsin Center District – Governance and Oversight



Wisconsin Center District – Governance and Oversight

Wisconsin Center District

- Facilities must cash flow on an annual basis.
- Sales taxes levied on hotel rooms, prepared foods and beverages and car rentals within Milwaukee County:
 - 2.5 percent on hotel rooms
 - 3.0 percent on car rentals
 - 0.5 percent on food and beverage sales
- Seven percent hotel tax collected by the City of Milwaukee.
- In January, 2011 hoteliers requested that the county-wide hotel room tax be increased from 2.0 percent to 2.5 percent to provide additional funding for Visit Milwaukee; WCD Board approved tax increase.
- Primary use of funds is to repay \$185 million debt for construction of Frontier Airlines Center (now Delta Airlines Center), secondary use is for Visit Milwaukee funding, remainder designated for capital improvement funds; all funds depleted annually.

Board of Directors

- Fifteen member board; two appointed by Mayor, three appointed by the Common Council (City Council), three appointed by the County Executive, three appointed by the Governor (one of which representing the hotel/motel industry and one representing the food and beverage industry within the District), the City of Milwaukee's Comptroller, the State's Secretary of the Department of Administration and the two co-chairs of the Joint Committee on Finance of the Wisconsin Legislature.
- Members serve three-year terms. Private sector appointees may not serve more than two consecutive terms.
- Regular meetings held monthly.
- Committees include: Finance and Personnel, Marketing and Capital Improvements. All committees consists of at least three Directors appointed by the Chairperson.
- Majority of the Board then in office constitutes a quorum for the transaction of business (i.e., if 15 members of the Board are in office, eight votes are required to pass a resolution).

Wisconsin Center District – Staffing

<u>TOTAL EMPLOYEES:</u>	<u>119</u>
Full-time Staff:	65
Average Number of PT Staff:	241
Average Hours Worked for PT Staff:	<u>431</u>
FTE for PT Staff:	54